The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Letters for the Editors to be forwarded to them, care of the Secretary, as above. Correspondence, copies of reports and accounts, &c., will be welcomed from the profession.

Contents.

Professional Notes.

THE Lord Chancellor has appointed Mr. Justice MacKinnon (Chairman), Mr. John Gordon Archibald, Sir Thomas Willes Chitty, Sir James Martin, F.S.A.A., Mr. Frank Boyd Merriman, K.C., M.P., and Mr. William Norman Raeburn, K.C., to be a committee to consider and report whether any, and if so what, alterations are desirable in the law relating to arbitration, and in particular to submissions, arbitrations, and awards made or held in England or Wales, or the law relating to the effect given in England and Wales to submissions, arbitrations, and awards made or held elsewhere.

A report has reached us of an address given by Mr. W. T. Layton, editor of the *Economist*, to a political party meeting held at Dewsbury. It is of interest to note that Mr. Layton, in discussing balance-sheets, expressed the view that in the auditing of accounts the accountancy profession could do a great deal, and one simple solution of the whole problem would be to nationalise the accountancy profession and, instead of a firm paying for the services of an accountant, the Government would audit the accounts. In the alternative he suggested that the accounts of all firms of over a certain size should be audited by Government auditors. We believe that this is the first suggestion which has been made of "nationalising" the accountancy profession, and it is rather startling coming from a journalist of Mr. Layton's standing.

A good deal of business is being lost to the profession through accountancy departments of associations formed on a co-operative basis with the object of giving expert services in various branches of business management. Subscribers are sometimes attracted to these associations by the offer of the services of the income tax department. It is alleged that behind these departments are occasionally to be found members of the profession who are willing to avail themselves of an accession of work which would not come to them in the ordinary way of practice. We understand that the matter in its several aspects has been brought to the attention of the Council of the Society of Incorporated Accountants and Auditors.

Mr. Runciman, in discussing at a meeting of the United Kingdom Provident Institution the question of how much wealth is accumulated in the hands of the small investor, made up the formidable total of £1,750,000,000, which he arrived at as follows:—

	£
Post Office Savings Bank	285,000,000
Trustee savings banks	83,000,000
National Savings Certificates (small investors)	223,000,000
Small Government holdings	189,000,000
Share of ordinary life assurance funds	340,000,000
Industrial life assurance funds	130,000,000
Building societies	140,000,000
Other registered provident societies	300,000,000
Share of approved societies	60,000,000
	£1,750,000,000

The figures are based partly on official returns and partly on his own estimates, and if they are even approximately correct there would appear to be much more money in the hands of the small investor than is generally supposed.

In giving judgment in connection with an application for reduction of capital in the case of a large company, Mr. Justice Eve pointed out that the company had only been in existence since the end of 1919, and that the balance-sheet showed a loss of something like £350,000, or about 7s. 6d. per share. What astonished him was the names of the persons who were directors; they appeared to include retired military or naval officers who probably had no previous business experience. This, we fear, is not an isolated case to which such criticism applies. It would be well for public companies to be more careful in the selection of their directors, and to have more regard to their actual qualifications for the duties they have to perform than to their social standing. For instance, a professional accountant of experience is a valuable acquisition to any board.

A deputation, representing the Institute of Chartered Accountants, the Society of Incorporated Accountants and Auditors, the Income Tax Payers' Society, and other institutions, waited upon the Chancellor of the Exchequer last month and asked him to consider the question of payment of the costs of proceedings in connection with income tax and super tax appeals. The Chancellor's reply was to the effect that the proposal that the Crown should pay the individual taxpayer's costs in Revenue cases would mean a large increase in the number of cases taken to the Courts, which would entail a serious increase in the cost of administration falling upon taxpayers as a whole.

As to the hardship of the taxpayer of limited means when faced with the prospect of expensive litigation against the Crown, Mr. Churchill pointed out that the same disability existed in all other fields of controversy, and he suggested that the remedy lay in combined action by income taxpayers for the purpose of contesting selected cases. He was accordingly unable to accept the contention that the Crown should pay the costs in Revenue cases when the Crown's view of the law was upheld by the Courts and its appeal from the decision of the Commissioners therefore justified.

An important income tax decision (*Archer-Shee* v. *Baker*) was given recently by Mr. Justice Rowlatt in relation to the question of the assessment of foreign income belonging to a trust estate. Under the income tax laws income from foreign securities and stocks, shares and rents is assessable whether remitted to this country or not provided the owner resides here, but other foreign income which does not come under these categories is assessable only in so far as it is remitted. The question which came up for decision was whether stocks and shares lost their identity by forming part of a trust fund and therefore came under the category of foreign possessions which were assessable only to the extent to which the income was remitted to this country.

The case for the beneficiary was that she was not entitled specifically to the income from these stocks and shares but only to the income from the estate. She was not the holder of the stocks and the trustees were not her nominees. The Crown, on the other hand, contended that she had the income from the stocks and shares, and that it was not necessary that they should be her possessions in law. Mr. Justice Rowlatt adopted the contention of the Crown, as he considered that he was bound by the decision of the House of Lords in *Williams* v. *Singer*.

The position with regard to the assessment of poultry farming for income tax purposes has been the subject of contention for some time past, and last year a decision was given in the Scottish Courts in the case of *Lean* v. *Ball*, which appeared to settle the matter, but apparently the Inland Revenue were not satisfied, and another case, *Jones* (*Inspector of Taxes*) v. *Nuttall*, came before Mr. Justice Rowlatt in the King's Bench Division last month. The question at issue was whether profits arising from the breeding of poultry and the sale of poultry and eggs were assessable as profits of a trade under Schedule D or whether poultry farming was simply husbandry and therefore assessable under Schedule B. Briefly stated, the facts of the case were that Mr. Nuttall was the occupier of three acres of land at a rental of £10 per annum. The land was all under grass and about 350 head of poultry were kept. Mr. Nuttall raised his own fowls and sold approximately 50,000 eggs per annum. The Crown contended that poultry farming was not husbandry and that the profits derived from the breeding of poultry and the sale of poultry and eggs did not arise from the occupation of land, but were in the nature of a trade within the meaning of Case 1 of Schedule D.

In giving judgment Mr. Justice Rowlatt said he was of opinion that he ought to follow the decision of the Scottish Court above referred to, which appeared to him to be sound law and common sense, and in which a distinction was drawn between cases where land was used merely as so much space upon which poultry could exist and cases where the stock on the land lived to a material extent upon the fruits of the soil. In the case before him the substantial object was the sale of eggs, and it was within

the competence of the Commissioners to find that Mr. Nuttall was using the land for his poultry. The Commissioners he considered had come to a right decision, and the appeal of the Crown was accordingly dismissed. He added a suggestion that the Commissioners in future would be well advised to follow the decision laid down in the Scottish case.

The vexed question of the liability of agents to be taxed in respect of the trade carried on by their foreign principals in this country has again been before the Court, in the case of *Gavazzi* (in the name of Cave & Benoist, agents) v. *Mace* (*Inspector of Taxes*). The main point was whether the agents were "authorised persons" within the meaning of sect. 31 (6) of the Finance (No. 2) Act, 1915, which provides that nothing

> shall render a non-resident person chargeable in the name of a broker or general commission agent or in the name of an agent, not being an authorised person carrying on the non-resident's regular agency or a person chargeable as if he were an agent in pursuance of this section, in respect of profits or gains arising from sales or transactions carried out through such a broker or agent.

Messrs. Gavazzi's agents were general commission agents, and the Court was quite clear that the contracts were made in this country, as the letters of acceptance were posted by the agents in England. The contention of Messrs. Gavazzi was that the agents were not "authorised persons" within the meaning of the section, and consequently were not assessable.

His Lordship said he experienced great difficulty in finding exactly what was meant by "an authorised person," but he inclined to the view that anyone who carried on a regular agency for a non-resident principal must be an authorised person. The agents in this case, although they acted also for other principals, were apparently the sole agents for Messrs. Gavazzi, and his Lordship considered that they did not occupy the position of brokers or commission agents, but were really on the staff of Messrs. Gavazzi. Under these circumstances he dismissed the appeal, thereby giving judgment in favour of the Crown.

In the case of *Elliott* (*Inspector of Taxes*) v. *The Duchess Mill, Limited*, decided in the King's Bench Division recently, it was held that a phenomenal trade depression, although general and not confined to a particular trade, might nevertheless be a "specific cause" within the meaning of the Income Tax Act, 1918. In this case the taxpayer was the successor to a business, and had made good his claim before the Commissioners that since the succession his profits had fallen off and that there was a specific cause. The Attorney-General urged the Court to hold that where a depression was not confined to a particular trade, but was due to economic forces and affected every form of industry, it was not a specific cause, but the Court refused to adopt this view and dismissed the Crown's appeal.

The case of *Constantinesco* v. *The King* raised the question whether an amount awarded by the Royal Commission on Awards to an inventor was subject to income tax. It was claimed by the inventor that the amount awarded was a capital sum and not an annual profit or gain subject to income tax, whereas the contention of the Crown was that the award was a payment of royalties falling within Rule 21 (All schedules) of the Income Tax Act, 1918. The decision of Mr. Justice Rowlatt, which was in favour of the Crown, appeared to turn upon the point that the patentees were not deprived of their patent, but remained in the position of licensors all the time. There was nothing to show that the amount paid to the inventor was not a payment for the actual user of the patent rather than a lump sum to acquire the patent. The amount awarded was therefore liable to income tax.

An interesting comparison has been made of the relative income tax and super tax burdens in the Dominion of Canada, the United States, and Great Britain. The result goes to show that the taxation is at least twice as heavy in Canada as it is in the United States, but much lower than it is in this country. In fact, according to a statement made by Mr. Churchill last December, the tax per head of the population in the United Kingdom is nearly three times as much as in the United States.

In an article appearing in the *Bankers' Magazine* on the subject of "The Financial and Commercial Outlook," comment is made on the speeches delivered by the chairmen of the leading banks. From this article it is evident that the editor is not disposed to take such an optimistic view of the commercial and industrial outlook as is reflected in the speeches of these bankers. It is pointed out that the optimism was qualified to some extent by certain remarks of the bankers themselves, and the view of the *Bankers' Magazine* is that the qualifications require to be emphasised and the need for economy more urgently pressed if we are to recover rapidly from the economic losses suffered by the war and at the same time maintain the responsibilities of the gold standard.

Rating and Valuation Act, 1925.

RATING reform is much overdue, especially having regard to the fact that one of the chief governing statutes is that of Elizabeth (1601), since which date the population, social conditions, and the spirit of the age have completely changed.

The Rating and Valuation Act is the first instalment in rating reform, and is largely concerned with changes in rating administration so as to promote uniformity and economy rather than changes in rating principles. The Act has had a stormy passage through every stage of its career. The abolition of overseers and also the parish as the rating area, relics of Elizabethan times, have no doubt largely added to the fuel of controversy. Originally there were clauses in the Act relating to the rating and valuation of London and of railways, but these were dropped in Committee. The Act now concerns only England and Wales—London, Scotland, and Northern Ireland are outside its provisions.

Up till March 31st, 1927, the duty of levying rates is upon the overseers, or in some urban districts on the district or borough council under the Local Government Act, 1894. The duties of the overseers are to be transferred on April 1st, 1927, to the council of every county borough and to the council of every urban or rural district, which will be the rating authority.

Rates are to be levied in newly constituted localities called "assessment areas," and in the case of county boroughs the county borough is to be the assessment area. In the counties, assessment areas will consist of one or more rating areas, which will be constituted by schemes submitted by the county council after consultation with the rating authorities and the boards of guardians, which schemes must be approved by the Minister of Health. If no scheme is submitted within six months after the passing of the Act, power is given to the Minister of Health to make a scheme for the purpose after consultation with the rating authorities and boards of guardians concerned.

The assessment area of a county borough or county will not necessarily be confined to the administrative area of the borough or county council, since there is power for two or more county boroughs, or for two or more county councils, or for a county borough and county council to combine in the creation of one large assessment area. These larger areas of assessment, and the provision of one assessment committee for the whole area, should secure greater uniformity of valuation and greater economy in administration. The number of rural rating areas throughout the country will probably be reduced from 13,000 to 650. The Union Assessment Committee Act, 1862, which created assessment committees, is repealed, although assessment committees, differently constituted from the present bodies, are to be retained. Every assessment area will have an assessment committee which will have jurisdiction over a much larger area than have the present committees. Where the assessment area is a county borough the assessment committee will be composed of such persons as the borough council may choose to appoint, but not less than one quarter of its members must be appointed to represent the guardians of the unions in the area of the borough, and nominated by the guardians, and not less than one-fifth must be persons who are neither members of the council nor guardians. In areas which are not county boroughs the assessment committee will consist of persons appointed by the rating authority, the boards of guardians, and the county council. The proportion in which these respective bodies will be represented is to be settled in the scheme constituting the area.

Two fundamental changes in rating administration have been made, viz, the creation of the county valuation committee and the central valuation committee. The former will consist of members of the county council and representatives of every assessment area within the county. The functions of this committee will be to promote uniformity between one assessment area and another in the principles and practice of valuation, and to assist rating authorities and assessment committees in the performance of their functions. Whilst the county valuation committee is destined to procure uniformity in rating throughout the county—and by joint conferences with neighbouring county valuation committees even beyond the limits of the county—the central valuation committee, consisting of representatives of rating authorities, county valuation committees, and assessment committees, is to make representations to the Minister of Health for the purpose of obtaining national uniformity.

New valuation lists are to be made in each new assessment area, one to come into force either on April 1st, 1928, or April 1st, 1929, and the second on either April 1st, 1932, 1933 or 1934, and thereafter new valuation lists are to come into force quinquennially, as has been the practice in London since 1869.

Hitherto, in order to ascertain the rateable value of hereditaments, various deductions from gross valuation have been made, largely dependent upon the discretion of local authorities, and hence these deductions have varied considerably. The Act now provides for statutory deductions which will naturally tend to produce greater uniformity. This lack of uniformity is now exemplified in the rating of machinery. The governing principle is that tenants'

machinery placed in a factory and used therewith for the business of the factory, whether it be affixed to the freehold or not, may be taken into consideration so as to increase the amount in assessing the factory to the poor rate, the application of which varies considerably, *i.e.*, in some cases unfixed machinery is rated and in others it is not rated. The Act does not provide that machinery as such is to be rated. Certain categories of machinery are scheduled (*e.g.*, machinery used for motive power) which are "deemed to be part of the hereditament" and are therefore not to be rated, but to be "taken into account" in the valuation of the factory. Machinery, on the other hand, which is used for "manufacturing operations or trade processes" is not to be "taken into account" in valuing the premises. A committee will be set up for the purpose of deciding this question. If any difficulty arises in deciding to which class any particular machinery belongs, the matter is to be referred to a referee from a panel of referees to be appointed by the Lord Chief Justice, whose award will be final and conclusive. Rating authorities will thus have a statutory guide to help them in determining the method of valuation of industrial undertakings. The method pursued will be uniform throughout the country, and should do something to alleviate the burdens of industries.

After the returns have been received by the rating authority for the purpose of compiling the new valuation list, it is to issue a draft valuation list to be called the "draft list." This list will be drawn up by the rating authority on the directions of the assessment committee. Any person or local authority aggrieved by the incorrectness or unfairness of any matter in the draft list may, within 21 days, lodge an objection with the assessment committee specifying the grounds of objection. The assessment committee must, within three days, send a copy of the notice of objection to the rating authority and to the occupier of any particular hereditament concerned, who may appear with the objector at meetings convened by the assessment committee for the purpose of hearing and determining the objection.

Provided he appeared before the assessment committee, any person who is dissatisfied with the decision of the committee may appeal to a committee of justices appointed by Quarter Sessions, which is to be a standing committee of Quarter Sessions, and is to have the same powers as regards costs and other matters under the Quarter Sessions Act, 1849, as if it were the Court of Quarter Sessions. The mode of appointment to the committee and the number of members of it is to be determined by Quarter Sessions, but not more than seven members and not less than five are to take part in an appeal. The chairman of the committee is to be appointed annually by Quarter Sessions, who, in making the appointment, are to have regard to judicial or other legal experience. In the case of boroughs which have a Recorder, he is to hear and determine the appeals, and will have jurisdiction so to act whether the Court of Quarter Sessions is in session or not. An important change is the giving the right of audience to solicitors in rating appeals to Quarter Sessions where the rateable value of the premises does not exceed £100.

Banker and Customer.

The judgment in the Court of Appeal last week in *Hilton* v. *Westminster Bank* seems to place very high the duties resting upon a bank in relation to customers' cheques and countermands of cheques. The judgment is against the Bank for damages for failure of duty, and is the unanimous decision of the Court of Appeal, reversing that of Mr. Justice Horridge. To begin with, a customer who intimates a countermand, which admittedly gives the wrong number of the cheque, and who escapes with a cash loss of only £8 1s. 6d. may be thought to have some reason for self-congratulation. But that only shows that the sums involved happened to be small. The crux of the case was that a subsequent cheque to another man for £7 was dishonoured by the Bank in consequence of the state of the balance as produced by the prior cheque having been paid. It is never a small matter for a man's cheque to be returned, and the significant thing about this part of the case is that the smaller the amount of the returned cheque the greater may be the harm. So that a case of this kind has an importance which bears no relation at all to the paltry amounts of the two cheques.

The customer issued a cheque for £8 1s. 6d. to Mr. X on July 31st dating it August 2nd. It was numbered 117285. On August 1st he telegraphed to the Bank, stopping the cheque, which he correctly described in the telegram by payee and sum, but wrongly giving its number as 117283. On August 2nd he had a telephone conversation with the Bank cashier on the subject, when the telegram was referred to, and the cashier said that the cheque, when presented, would not be paid. In saying so, of course he was referring to the cheque as specified in the telegram, and nothing was then said as to an error in the cheque number. On August 6th the £8 1s. 6d. cheque was presented and paid. On August 12th the £7 cheque was dishonoured by the Bank.

It is established law that a telegram is not a sufficient countermand, for it might have come from anyone. But in this case the Bank did not take that plea, admitting that they had received the

telegram, and that it was from the customer. In view of the wire, plus the telephone message, they could not well have done otherwise. It is also clear that if, on receipt of the telegram on August 1st, or between that date and August 6th, the Bank had taken the trouble to look at the customer's cashed cheques, they would have seen that a cheque No. 117,283 had already been cashed. That would have led to inquiry, and the customer's mistake in the telegram as to the number would have been cleared up, and so all the trouble would have been prevented.

The view taken by Mr. Justice Horridge was simple and clear; the mistake was the customer's and he must pay for it. On that view the customer would suffer by giving too much information in his telegram. If he had given only payee and amount, that would have been enough to identify the cheque, and he must have won without question. But he chose to go on and give the number, and he gave a wrong number. Whereupon the Bank's case was that they were waiting, and were entitled to wait, for a cheque of that number, and had no duty to go to the customer's rescue against his own fault by examining his cheques already cashed.

But then there was one fact which no doubt made a difference. The customer swore that in the telephone conversation of August 2nd he referred to the stopped cheque as bearing that date, or not presentable till that date. This was not contradicted, and the inference was drawn that the cashier had forgotten the conversation or failed to see its importance. If there had been a conflict of verbal testimony as to that conversation, then Mr. Justice Horridge's judgment in favour of the Bank might have stood.

Capitalisations and Super Tax.

THE very recent decision by the House of Lords in the case of *Inland Revenue* v. *Fisher's Executors* creates a fitting occasion for considering the position which arises under that and previous decisions. Putting it in very summary form—

1.—Bonus shares escape super tax (case of *Blott* (1921) 2 A.C., 171).

2.—So does bonus debenture stock (this is *Fisher's* case).

3.—So, we may safely assume, do bonus debentures.

4.—A bonus dividend attracts super tax even though there is an option to apply it to the acquisition of shares in the company, and even though that option is exercised (case of *D'Ewes Coke*, decided quite recently by Mr. Justice Rowlatt, and still subject to the possibility of appeal).

5.—A distribution by company A of shares, or debenture stock, or debentures of company X, is income (case of *Guardian Investment Trust Company* ((1922) 1 K.B., 347), approved by the Lord Chancellor in *Fisher's* case).

In *Fisher's* case a good deal was said by the Law Lords on the subject of "bare machinery," and reading the masterly judgment of that great lawyer, Lord Sumner, one gets the impression that his references are not untinged by irony. It is accordingly useful to set down what is the usual machinery of those capitalisation issues. When bonus shares are to be issued there is a competent resolution (according to circumstances) to capitalise a stated sum, being part (or the whole) of the amounts standing to the credit of reserve or of undistributed profits, and laying down the following further machinery: To declare a bonus dividend (free of tax) on the ordinary shares, the amount of which is equal to the capitalised sum; to create, if necessary, and in any case to issue, ordinary shares to the same nominal amount as the capitalised sum; to issue these to the ordinary shareholders *pro rata*; and to apply each shareholder's bonus dividend to paying up in full the nominal amount of his bonus shares. When the intention is to issue bonus debentures or debenture stock the machinery is simpler, for the resolution may be merely to capitalise a certain sum standing to the credit of reserve or undistributed profits, and to issue it to the ordinary shareholders in the form of debentures or debenture stock *pro rata*. This latter form omits altogether the machinery steps of a bonus dividend and its application to paying up, or paying for, the debentures or debenture stock. There is the difference that there is not, in the latter case, the statutory requirement of payment in cash which (with qualifications) exists in regard to shares, but it is right in passing to note that doubt has in certain quarters been expressed whether the machinery usually employed for paying up bonus shares would stand a legal test if that became necessary in an insolvent liquidation.

Litigation being in the last analysis largely of the nature of administration, it is perhaps not always wise to search for principles. In the world of business and finance it is not possible to set a limit to the variety of combinations which may be brought about, sometimes for reasons which have nothing whatever to do with any idea of avoiding taxation, but also sometimes with that very object. Let us consider what really happens when, say, bonus shares are issued. Say I hold £1,000 ordinary capital in a company. It has at the credit of reserve, or otherwise undistributed profits, an amount equal to the nominal amount of its issued

ordinary capital. These sums are capitalised and I receive, for nothing, a certificate for another £1,000 ordinary capital. In form my holding is doubled. In substance am I any better off? Theoretically, no; but as a rule, practically, yes. If my original £1,000 was, on market quotation, worth £5,000 before the capitalisation, my £2,000 will not be worth £10,000, but almost certainly it will be worth more than £5.000. I have received no cash. The company has paid out nothing. I never had an option to insist on cash. The company has "released no assets." All the assets it held before capitalisation it holds still. Of course, I can sell my £1,000 bonus capital, but so in effect I could always have done, even before its issue, by selling my original capital. Those considerations explain the test laid down in the Courts for determining whether the bonus issue shall, or shall not, attract super tax. In one form of expression it is—"Did the shareholder have an option to take cash? If not, no super tax." That was Mr. Justice Rowlatt's formula in *D'Ewes Coke*. In another form of expression it is—"Has there been a release of assets? If so, has the asset released been labelled by the company 'capital' or 'income'?" That was the formula of Mr. Justice Sankey in *Guardian Investment Company*, as verbally varied and approved by the Lord Chancellor in *Fisher's* case. The option test was applied long ago as between tenant-for-life and remainder-beneficiary of settled shares in *Bouche* v. *Sproule* (12 A.C., 385), referred to as still good law in *Fisher's* case.

The above considerations carry us a good way, but they are far from exhausting the subject, for the truth is that, quite apart from expected legislation, the subject is not exhausted, as indeed is indicated in the speeches of the Law Lords in the *Fisher* case.

In such a case as the *Guardian Investment Company* there is a clear release of assets. The shares of company X were assets of company A, and they are by the distribution scheme parted with out-and-out. It is exactly as though company A had sold those shares and had distributed the proceeds as dividend. But it is worth noting that there is no option; that is to say, the shareholders of company A had no option to say to the directors that they must have cash instead of the X company shares. And yet the distribution is income. Yes, because, though not of money, the distribution was of money's worth, and a real paying out or release of assets.

It may be objected that this shows that one must not push too far the argument that, after an issue of bonus shares, the shareholder has in substance no more than he held before, but only the same thing in another form, and that, therefore, super tax should not be chargeable. It may be said that on the payment of every ordinary dividend the quotation falls, and roughly the old certificate plus the dividend warrant equals only the old certificate itself before the dividend. Yes, but that distribution or release is as profits, whereas the others are as capital. The important point is not whether the distribution is *out of* income, but whether it is *as* income or *as* capital.

Debentures or debenture stock may be redeemable or irredeemable. Take the simple case of a series of debentures payable, say, at the end of six years. That in substance was *Fisher's* case. As contrasted with bonus shares we have then the following points of differentiation:—(1) a debt; (2) a debt which the company may be entitled to pay off at any time; and (3) a debt which the company is bound to pay off at a fixed time. May it be said with great respect that the comments of the Lord Chancellor do not seem altogether satisfying: "But the debt was not presently [immediately] payable, and might never become payable while the company was in existence." Along with this must be read Lord Sumner's *obiter*: "If a six years' currency of the debenture stock is permissible, I do not see why six weeks should be less so."

It does not do to talk and think only of profits made in years previous to the year of capitalisation. In this very case of *Fisher* it appears from Lord Sumner's speech that the capitalised sum included over £64,000, part of the profits of the year 1914, in which the scheme was carried through. That alone was enough to have paid 25 per cent. on the issued ordinary capital. Lord Sumner, determined to press everything to the extreme by way of demonstration, adds: "If any part of the dividends [profits?] of the year can be so converted I presume all could be," and all this by the intelligent use of "the alchemy of mere machinery."

Reflection shows that the whole substratum of this technical edifice rests on the fiat of the company. On this also Lord Sumner has something to say. He speaks of the "mere" decision of the company, and what he means is that this "operates through majorities whose private motives and interests may have been no concern of the company at all." But surely a far worse position is presented in exactly the contrary case, namely, when one man above the super tax limit controls the company. If we may piece the thing together, we get this result: Instead of drawing an ordinary cash dividend of £10,000 free of tax any year, he (as the company) may issue to himself (as an individual), out of the same source, that year's profits, a six weeks' debenture for £10,000, and thereby escape super tax on that sum. This is the glorification of "mere machinery."

Society of Incorporated Accountants and Auditors.

COUNCIL MEETING.

A meeting of the Council was held in the Council Chamber, 50, Gresham Street, London, E.C., on Thursday, March 25th, when there were present:—Mr. G. S. Pitt (London), President, in the chair; Mr. Thomas Keens (Luton), Vice-President; Mr. Wm. Bateson (Blackpool), Mr. Joseph Blackham (Birmingham), Mr. D. E. Campbell (Wolverhampton), Mr. W. Claridge, M.A., J.P. (Bradford), Lieut.-Colonel Grimwood, C.B., D.S.O. (London), Mr. R. Leyshon (Cardiff), Sir James Martin, J.P. (London), Mr. H. Morgan (London), Mr. C. Hewetson Nelson, J.P. (Liverpool), Mr. J. Paterson (Greenock), Mr. W. H. Payne (London), Mr. A. E. Piggott (Manchester), Mr. G. E. Pike (London), Mr. J. Stewart Seggie (Edinburgh), Mr. Alan Standing (Liverpool), Mr. Percy Toothill (Sheffield), Mr. F. Walmsley, J.P. (Manchester), Mr. E. W. C. Whittaker, J.P. (Southampton), Mr. W. McIntosh Whyte (London), Mr. A. E. Woodington (London), and Mr. A. A. Garrett, B.A., B.Sc., Secretary.

Apologies for non-attendance were received from Mr. Richard Smith (Newcastle-on-Tyne), Mr. A. H. Walkey (Dublin), Mr. F. Ogden Whiteley, O.B.E. (Bradford), and Sir Charles H. Wilson, M.P., LL.D. (Leeds).

The minutes of the respective Committees were confirmed.

The Secretary reported the death of the following members:—Mr. Walter Harold Firth (Associate), Milwaukee (U.S.A.); Mr. Thomas Johnson (Associate), Hull; Mr. Herbert James Lacey (Associate), Great Yarmouth; Mr. George McCulloch (Fellow), Glasgow; Mr. John Meikle (Fellow), Glasgow; Mr. Patrick Robertson (Associate), Blairgowrie; Mr. John Albert Spittle (Associate), Birmingham.

ANNUAL GENERAL MEETING.

The annual general meeting of the Society was appointed to be held on Wednesday, May 12th, at the Cordwainers Hall, Cannon Street, London, E.C., at 2.45 p.m.

It was decided to hold an extraordinary general meeting of the members after the annual meeting for the approval of certain proposed amendments in the Memorandum and Articles of the Society, with regard to borrowing powers in view of the acquisition of a building for the Society's purposes in the near future.

INTERNATIONAL CONGRESS OF ACCOUNTANTS, AMSTERDAM.

Report was made as to the arrangements and the papers to be read. An invitation was received from the Reception Committee for the Society to nominate a representative on the Presidency Committee, the members of which, in rotation, would preside at the various sessions of the course. It was resolved that Mr. Thomas Keens, Vice-President of the Society, be nominated as the Society's representative.

AWARD OF GOLD AND SILVER MEDALS, 1925.

The Society's Gold Medal in respect of the Examinations held in 1925 was awarded to Mr. Sydney Harold Bladon, who took First Place at the May Final Examination, and the Silver Medal was awarded to Miss Gladys E. M. Dodsworth, who took First Place in the November Final Examination.

A number of new members were elected, and other business was transacted.

SAVINGS CERTIFICATES.

FIRST ISSUE.

Treasury Committee's Report.

The following are the reports of the Committee appointed by the Treasury to consider what steps should be taken in view of the approaching expiry of the term of the First Issue of War Savings Certificates, and to make recommendations. The Committee consisted of Mr. Cecil Lubbock (Chairman), Sir William Schooling, K.B.E., Mr. L. Margerison, C.B.E., Mr. F. Phillips, Mr. A. K. Wright, C.B.E., D.L., with Mr. J. H. Penson as Secretary.

Interim Report.

(Dated November 12th, 1925.)

We were appointed by Treasury Minute, dated April 29th, 1925, to consider what steps should be taken in view of the approaching expiry of the term of the First Issue of War Savings Certificates, and to make recommendations.

While we have not yet completed our deliberations, we consider it desirable to lay before your Lordships a recommendation on a point of some urgency. We hope to submit our final report at an early date.

The present position of the problem we have been considering is as follows:—Saving Certificates of the First Issue were on sale from February 19th, 1916, to March 31st, 1922. These certificates were issued at 15s. 6d., and are repayable after ten years at £1 6s. 0d.

Certificates of the first issue will thus begin to fall due as early as February, 1926. But in many cases a privilege of prolongation beyond the ten years already exists. Holders of two or more certificates of the same issue, which were not all bought on the same date, have the privilege of prolonging the currency of their earlier-dated certificates until the latest-dated certificate of the same issue, held by them, has run for ten years, the entire holding thus maturing at one date. Certificates which are prolonged in this way will accumulate in value after the ten years at the rate of interest of one penny per month per certificate originally costing 15s. 6d.

Many holders will thus be able to keep their certificates beyond the ten years; and it appears to us to be desirable that, so far as concerns certificates of the first issue, such an extension should be made possible, under similar conditions as regards interest, in the case of every holder of such certificates.

Under the existing arrangements described above, the latest date to which certificates of the first issue may be held is March 31st, 1932, and we recommend that it should now be made permissible for all holders of certificates of that issue to continue to hold them until that date, with interest after the tenth year at one penny per month per certificate originally costing 15s. 6d. All the existing privileges attaching to savings certificates, *e.g.*, freedom from income tax and repayability on demand with accumulated interest, should continue to attach to the certificates after prolongation.

Should our recommendation meet with your Lordships' approval, we suggest that an early announcement of the decision should be made, in order to set at rest any doubt or uncertainty there may be in the minds of certain holders whose certificates will become due for payment in the course of the next few months.

Final Report.

(Dated February 3rd, 1926.)

1.—We were appointed by Treasury Minute, dated April 29th, 1925, to consider what steps should be taken in view of the

approaching expiry of the term of the first issue of War Savings Certificates, and to make recommendations.

2.—We have held nine meetings, and have heard evidence given on behalf of the National Savings Committee, the Scottish Savings Committee, the General Post Office, the Inland Revenue Department and the Trustee Savings Banks Association. We submitted to your Lordships on November 12th last an interim report on one point of urgency. Your Lordships were pleased to accept that recommendation, subject to the necessary legislation being obtained, and an announcement was made to that effect on November 18th. We now lay before your Lordships our final report.

3.—Savings certificates have been on sale since February 19th, 1916, and the terms have twice been revised. The first issue was on sale until March 31st, 1922; the second issue appeared on April 1st, 1922, and the third, which is that now on sale, on October 1st, 1923.

4.—Savings certificates of the first issue were sold at the price of 15s. 6d. for a single certificate. The terms provided that the interest should accumulate on a scale laid down, until on the fifth anniversary of the date of purchase the value of the certificate became £1. In addition, the purchaser was always entitled to claim repayment on demand with interest accrued to date. In 1919 the period for which certificates might be held was extended to ten years, the value increasing from £1 at the end of the fifth to £1 6s. 0d. at the end of the tenth year.

5.—The earliest date on which this period of ten years may expire is February 19th, 1926, and since the last date on which certificates of that issue were on sale was March 31st, 1922, it follows that maturities of the first issue will be spread over a period of a little over six years from February 19th, 1926, to March 31st, 1932.

No certificate of the second issue matures before April 1st, 1932, and no certificates of the third issue before October 1st, 1933. We are concerned under our terms of reference with the first issue only.

6.—The total gross sum invested in the purchase of savings certificates of the first issue was £446,095,616; of this sum £103,957,174 had been repaid by March 31st, 1922, leaving a net sum of principal and interest estimated at £387,139,000 outstanding on that date.

It is estimated that the total outstanding liability (including accrued interest) on January 31st, 1926, in respect of certificates of the first issue only was about £330,000,000.

7.—In our interim report we referred to the provision whereby a holder of certificates of the same issue which had been taken out at various dates might continue to hold all his certificates until the tenth anniversary of the date of purchase of the latest-dated certificate, interest accruing at the rate of one penny for each complete month on each certificate held for a period in excess of ten years. Under this arrangement the latest date to which certificates of the first issue could be held was March 31st, 1932.

Your Lordships have accepted our recommendation that this option of extending the life of certificates beyond the ten years should be open to all holders of certificates of the first issue, and that all such certificates might, if the holder wished, be held until March 31st, 1932, with interest after the tenth year at one penny per month per certificate originally costing 15s. 6d.

8.—We have considered whether this option of retaining certificates after the tenth year would not, together with the other existing opportunities for investment, suffice to solve the problem before us. The possible courses at present open to a holder on the maturity of his certificates may be summarised as follows:—

(1) He need take no action before March 31st, 1932, but allow his investment to grow in value by one shilling a year for each certificate;

(2) He may cash his certificates and place the proceeds—

(*a*) In certificates of the current (third) issue,

(*b*) In a Savings Bank account,

(*c*) In Government Stock,

(*d*) In some other investment.

9.—In so far as investors availed themselves of either of the last two courses indicated under (2) above, there would be the disadvantage that money would have to be found for the encashment of the certificates. We consider that the encashment of some part of the outstanding certificates during the next few years is a contingency that cannot altogether be avoided, but we feel it is of considerable social and economic importance that this particular body of savings, comprising as it does a large proportion of small investors' money, should so far as possible be kept together.

10.—This object will, in fact, be achieved in so far as certificates are retained after the tenth year with interest at one penny a month, and this is now possible in the case of all certificates of the first issue. This does not, however, of itself provide a permanent and complete solution, as the rate of interest yielded, which is free of tax, though satisfactory for some years, declines towards the end of the period. Finally, mere prolongation will not meet the case, to be dealt with below, of the small investor who already has his full quota of savings certificates, and is at present debarred from purchasing more.

11.—The most obvious solution might seem to be that holdings should simply be transferred on maturity to certificates of the current issue, and where only a few certificates are held this course will probably be adopted. There are, however, two difficulties in the application of this solution to all holdings. First, since a maximum normal holding of certificates of the first issue will be worth on maturity at least £650, a holder may find that he has £250 to transfer, in excess of the maximum amount (£400) that may be invested in current issue certificates. This excess would have to be drawn in cash and invested elsewhere. It is true that this difficulty could be met by the enlargement of the maximum holding of current issue certificates for the benefit of the holder converting from the first issue, but we do not think it desirable to extend in this way the maximum holding of a tax-free security, especially as the extension would benefit the well-to-do rather than the small investor.

The second difficulty is that a provision for converting all holdings of the first issue into certificates of the third issue would not cover the case of the small saver who already has a full number of certificates and wishes to continue saving in this form. While it must be true that a considerable number of those who have the maximum holding of certificates are comparatively well-to-do people, we have had it put definitely in evidence that there is a growing number of small savers who, either by investing their life's savings or legacies, or by steady saving out of income since certificates were first issued, have already acquired the maximum holding and desire to go on investing further in certificates of the current issue. To extend the maximum holding of certificates just so far as to enable such a person to convert into the current issue, would not meet such a case.

12.—We have therefore come to the conclusion that some further provision should be made for conversion of certificates of the first issue on maturity. The question arises whether

a new form of security is necessary. In some ways it would be preferable to avoid creating yet another form of Government security. But we have been impressed by the evidence given on behalf of the National and Scottish Savings Committees as to the importance in the view of the small investor of his maintaining intact the capital value of his savings. This was pointed out by the Committee on War Loans for the Small Investor in their Report of January 26th, 1916; the evidence we have heard has been to the effect that this factor must still be recognised, and that, if any conversion operation for Savings Certificates is to be fully successful, it must, so far as the small investor is concerned, have the special characteristic of providing against the depreciation of the principal invested.

13.—We do not, however, consider that such a conversion issue need necessarily be similar in all respects to savings certificates. The objects of the savings movement are not confined to the sale of savings certificates; they include the establishment of habits of saving and of wise spending and investment in all its forms throughout all classes of the community, and this fact has not only been made clear in the public utterances of Ministers, but is also recognised by the great body of voluntary workers to whom the savings movement owes so much of its influence in the country. We think that ultimately the aim of the movement must be to direct the attention of the small saver to longer term investment, by which alone the maximum yield on his savings can be realised, and we suggest that the new conversion security, while connected with the savings movement, should approach in some degree to the more normal type of security appropriate to longer term investment, and that it should be in a sense intermediate in form between the more normal type of security and savings certificates.

14.—We consider that this object could be achieved in the following way:—

The security to be issued should be an interest-bearing security, paying a half-yearly dividend. The interest should not be made free of income tax, but should be paid without deduction of tax at the source.

The security should have a currency of ten years; but in order to provide against depreciation of principal, it should be repayable at par with accrued interest on six clear months' notice from any date. Encashment on demand or with less than six months' notice should not be admitted as of right. As, however, the security would, like the savings certificate, be personal to the holder and not ordinarily transferable, it may be possible to make some administrative provision whereby the holder might, in a case of private emergency, receive on surrendering his bond the equivalent of his principal with accrued interest, less a discount of £2 for every £100 of principal thus repaid. This arrangement should, however, be at all times subject to the approval of the Treasury.

Having regard to the fact that the holder of such security would be able to claim repayment at notice, the interest yield must inevitably be somewhat lower than that of Government securities not subject to such a condition. The rate should be fixed by the Treasury and should be varied from time to time, so far as concerns new issues, in accordance with prevailing market conditions. Under present conditions we suggest that the rate should be 4 per cent. per annum. In addition, a small bonus should be given on the final redemption of the security.

We think that the maximum holding by any one person should be £500.

A security of the type described would resemble the savings certificate in its non-transferable character and in the provision for maintaining the capital value. On the other hand it would approach the more normal type of Government security in that it would bear interest half-yearly, that this interest would be liable to income tax, and that the capital would not, except on the special conditions suggested above, be repayable on demand.

15.—We think that the issue of a savings bond on the above lines would be both desirable in the special circumstances described earlier, and justifiable on general financial grounds. It is evident that, since holders who converted their certificates in this way would be able to invest further in certificates, the issue would have the effect of increasing the liability that the State might be called upon to repay at short notice. We think that on this ground it is essential that the issue should be limited; but provided the issue is limited as we have suggested, we think that the State will find compensation in the additional impetus to the small saver and in the encouragement given to him to improve his income by investment in securities of a type approaching to what might be called the normal. We think, too, that the small saver would come to regard his holding of bonds as an investment to be held in the ordinary course to the end of its currency, to be encashed only as a last resort when other investments, withdrawable on demand, such as savings certificates or a savings bank deposit, have been exhausted.

16.—We may summarise as follows the conditions under which we recommend that the savings bond should be issued:—

(*a*) The bond should be issuable at par through the Post Office, and be of any nominal amount (being a multiple of one penny) not less than £20.

(*b*) It should be repayable by the Government with a small bonus ten years after the date of issue.

(*c*) It should be encashable at six months' notice from any date at par plus accrued interest.

(*d*) In a case of private emergency the holder should be able, subject to the approval of the Treasury, to obtain repayment of the principal of the security with accrued interest, less £2 for every £100 of principal repaid.

(*e*) The bond should not be transferable, except in such cases as those in which savings certificates are transferable.

(*f*) Dividends should be payable half-yearly at fixed dividend dates without deduction of income tax.

(*g*) Payment of dividends should be made at the holder's option, either by credit to a post office savings bank account, or by warrant, negotiable either at a post office or through a bank. We recommend that facilities should also be given for the payment of the dividend in the form of savings certificates or savings stamps, if the holder so desires (subject to the usual maximum holding of five hundred certificates).

(*h*) The dividend, in whatever form it is paid, should be accounted for in the income tax return, and the tax paid thereon if the holder is liable.

(*i*) The maximum holding should be £500.

(*j*) The Bonds should be issued in conversion of Savings Certificates of the first issue (subject to the qualifications set out in paragraph 18 below).

17.—In making the above recommendations, we have had in mind primarily the requirements of the small saver. It is certain, however, that a considerable proportion of certificates of the first issue are held by wealthier persons, those liable to income tax, for whom in fact, savings certificates were not in the first instance designed. Many such holders will doubtless

retain their certificates until 1932; but we think that the time has now come that definite steps should be taken to encourage these holders to convert into long term Government issues, and for this purpose we recommend that the Government should offer to exchange certificates of the first issue into 4½ per cent. Conversion Loan (1940-44), fresh stock being created as required, in all respects similar to and ranking with the stock already issued. This offer might, unless special circumstances intervene, be kept open continuously during the six-year period, during which certificates of the first issue are maturing. Conversion might, we think, be made without charge. The stock would be registered with the Post Office in the first instance; but there would be the usual facilities for transfer at the holder's option to the books of the Bank of England. For this conversion the price of Conversion Loan should, we think, be the current market price, as certified by the Bank of England, of the day on which the conversion takes place; the value of the holding of certificates should be taken as at the date of the transaction.

We do not think it desirable that very small sums in certificates should be transferable into Conversion Loan, and we recommend that the minimum amount so converted at any one time should be £50.

Both this offer and that of the savings bond should be available without distinction to all holders of certificates of the first issue. We cannot but think indeed that many small investors will find the offer of Conversion Loan, with the facilities for registration with the Post Office, an attractive one.

18.—One or two matters of some importance from an administrative point of view have to be mentioned.

It has been pointed out that inconvenience and delay may result if a very large proportion of the applications for conversion are postponed until towards the end of the period during which certificates are maturing. With the option to extend the life of all certificates to March, 1932, this postponement may easily take place, unless facilities are given for early conversion where the holder so desires. The difficulty is that a bonus is payable on the completion of the tenth year of the life of a certificate tending to induce holders to retain each certificate at least until the completion of the full ten years. We think, however, that a considerable number of holders might be ready to convert earlier if compensation were given for the loss of the bonus by reason of premature conversion. We recommend, therefore, that where a holder desires to convert his entire holding, without waiting for the maturity of all his certificates, he should receive, as the value of each certificate prematurely converted, one penny for each completed month since the date of purchase, in addition to the principal of 15s. 6d. This, in fact, is equivalent to a bonus, as compared with the ordinary encashment scale, of ninepence when the certificate has been held less than five years, and sixpence where it has been held not less than five but less than ten years.

Conversion of certificates into Conversion Loan on the terms proposed above should, we think, be made possible at any time; but in the case of transfer to the proposed savings bonds it would seem desirable that conversion should not be made until the holder has at least one certificate that has run for ten years. This would tend to spread the applications for conversion over the period up to 1932.

19.—There are two cases in which a person may hold certificates in excess of the normal maximum of 500; (*a*) where he has inherited certificates, and (*b*) where he holds special war gratuity certificates purchased with money paid to him in respect of a war gratuity. We do not recommend that the maximum individual holding either of the proposed savings bonds (£500) or of current issue certificates (500 certificates) should be extended to provide for the investment of these exceptional holdings on maturity. But we think that it should be open to a holder of these certificates to convert either the whole or any part of his holding into Conversion Loan, on which no limit need be placed, under the special conditions proposed above.

20.—Each of the conversion operations suggested above should, we think, be carried out without the necessity for actually encashing the certificates. No question of encashment and reinvestment would arise in connection with the issue of the suggested savings bonds or with that of Conversion Loan, but we think that it is important that cash should not pass where conversion is into certificates of the current issue, or where, if a holder so desires, the proceeds of savings certificates are transferred to a savings bank account. These recommendations do not, of course, exclude the right of any holder to cash his savings certificates at any time if he so desires.

21.—We desire also to make clear that no question should arise, as a result of our recommendations, of the Treasury being liable to make available any additional sums to local authorities under the arrangement by which a local authority may apply for a loan from the Local Loans Fund up to the equivalent of half the gross proceeds of sales of savings certificates. Our recommendations relate solely to conversion of certificates and no new money is involved. No question of the sale of certificates would arise either in the event of savings bonds or Conversion Loan being issued in exchange for savings certificates, nor where current issue certificates are taken over by a holder in exchange for matured certificates of the first issue.

22.—We would like to refer, finally, to the importance, in the working out of the conversion operations above recommended, of the assistance given hitherto so generously by the great body of voluntary workers of the savings movement. The maintenance of over £370,000,000 in savings certificates, amounting with interest to over £458,000,000, is eloquent of the success with which their efforts have been attended during the period of nearly ten years that the movement has been in existence. We feel that the country can rely upon the continuation of those efforts in carrying out the steps which we have suggested.

23.—In conclusion, we desire to express our sense of obligation and gratitude to our secretary, Mr. J. H. Penson, for the skill and ability with which he has assisted us throughout our proceedings.

Summary.

24.—We summarise briefly the recommendations and conclusions that we have reached.

We have already recommended:—

(1) That an option should be given to all holders of savings certificates of the first issue to continue to hold those certificates, if they so desire, until March 31st, 1932, with interest after the tenth year at one penny per month per certificate originally costing 15s. 6d.

We now further recommend:—

(2) The issue for the conversion of savings certificates of the first issue

(*a*) Of a special savings bond, designed to meet the needs of the small investor, and

(*b*) Of new 4½ per cent. Conversion Loan (1940–44).

(3) The encouragement of early conversion of savings certificates of the first issue by the grant under certain conditions of a small bonus on certificates converted before they have run ten years.

(4) That conversion of certificates should in all cases be made possible without the necessity for encashment and reinvestment.

Changes and Removals.

Messrs. Martin, Farlow & Co., Incorporated Accountants, 50, Gresham Street, London, E.C.2, announce that they have taken into partnership as from March 26th last, Mr. L. Gerard Norton, A.S.A.A., who served his articles of clerkship with their firm.

Mr. Douglas Mackeurtan, F.S.A.A., and Mr. Edwin S. Crosoer, F.S.A.A., who have hitherto practised in partnership as Incorporated Accountants and Auditors under the style of George Mackeurtan, at 306, Smith Street, Durban, Natal, intimate that in future they will carry on their practice under the style of George Mackeurtan, Son & Crosoer. After April 6th their address will be Old Well Court, 376, Smith Street, Durban.

Mr. Archibald Brown, Incorporated Accountant, has removed to Daimler House, Paradise Street, Birmingham.

Mr. F. G. Butler, Incorporated Accountant, has commenced public practice at 20, High Street, Deptford, S.E.8, and 79, Tuam Road, Plumstead Common, London, S.E.18.

Miss Daisy Cross, Incorporated Accountant, has commenced public practice at 500, Corn Exchange Buildings, Hanging Ditch, Manchester.

Mr. Stanley J. Elliott, Incorporated Accountant, has been appointed to take over the management of the Paris office of Messrs. Hughes & Allen at 5, Boulevard Malesherbes, Paris.

Mr. George Fillingham, Incorporated Accountant, has removed from 16 to 17, East Parade, Leeds.

Messrs. Gladwell, Walter & Co., Incorporated Accountants, have removed to Finsbury Pavement House, London, E.C.2.

Mr. W. G. Lithgow, Incorporated Accountant, has commenced public practice at County Bank Buildings, 429A, Lord Street, Southport.

Mr. P. Mannadiar, Incorporated Accountant, has removed to 1, British Indian Street, Calcutta.

Mr. B. M. Patton, Incorporated Accountant, has been admitted into partnership in the firm of Edward Judson Mills & Co., 45, Fleet Street, Torquay.

Messrs. Peveler & Peveler, Incorporated Accountants, have removed from 1, Princes Street to 5, Princes Square, Harrogate.

Messrs. York Rickard, Kenah & Co., have removed from 89, Upper Thames Street to 65/66, Basinghall Street, London, E.C.2.

Mr. C. B. Steed, Incorporated Accountant, has removed to 14, Small Street, Bristol.

Messrs. Stimson & King, Grove Road Chambers, Eastbourne, announce that the partnership has been dissolved by mutual consent as from February 28th, 1926, Mr. Frank Stimson having retired in consequence of ill health. The practice will be continued by Mr. Harry C. King, A.S.A.A., Incorporated Accountant, at 14, Station Parade, Eastbourne, on and after March 26th.

Mr. H. J. Veitch, C.A., F.S.A.A. (Messrs. Veitch & Co.), 10, Coleman Street, London, E.C.2, has removed to more commodious premises at 9, Coleman Street, where he will be assisted in future by Mr. G. Scot Simmonds, A.C.A., who has been taken into partnership. A branch of the practice will also be carried on under the same style at 371-377, Corn Exchange Buildings, Manchester.

Mr. A. B. Watts, Incorporated Accountant, has removed to 15, Windsor Place, Cardiff.

BANKRUPTCY CLAIM UNDER ANCIENT STATUTE.

In the Mayor's and City of London Court, before Judge Shewell Cooper, on March 11th, Mr. H. S. Roberts, 147, Bath Street, Glasgow, accountant (trustee in the sequestration of Morris Goodman, formerly in business in Glasgow), brought an action against Mr. Bernard Bowman, of 8, Staining Lane, Gresham Street, London, E.C.2, for £100.

Mr. Pringle, counsel for the plaintiff, said that the case came under a very ancient Scottish statute of 1696 dealing with bankruptcies. In the present case the bankrupt had had business dealings with the defendant from December, 1923, until May, 1924, the last order for goods being given in the latter month. On October 17th, 1924, Goodman drew a bill for £100 payable three months after date, on another man in Glasgow, who accepted it, and Goodman endorsed and delivered the bill to the defendant together with a cheque for £8 odd in settlement of his account with the defendant. On November 26th Goodman became bankrupt, and on December 17th the plaintiff was appointed trustee. Plaintiff's contention, said counsel, was that under the ancient statute referred to the endorsement constituted preference to the defendant in respect of the bankruptcy, and the plaintiff claimed the return of the money, it having been paid on January 20th by the third party who had accepted the bill. Mr. Pringle said that the statute was very strict on the point, and the only question which might be raised in the present case was that exception was made when a bill was given in the ordinary course of business.

Mr. Macaskie, counsel for the defendant, made two submissions on his behalf. He first contended that the transaction was subject to the laws of England and not to those of Scotland because the defendant had asked for a cheque in settlement of his account, whereas Goodman had sent a three months bill by post. In law, he submitted that the Post Office were the agents of the bankrupt in carrying the bill, and therefore delivery was not made until it arrived in London where the contract was completed, such completion bringing it within the English law. His second point was that it was admitted that from February, 1924, until the bill in question was given, the bankrupt Goodman had paid a number of accounts to the defendant by means of bills similar to this one. He therefore submitted that the transaction in question had occurred in the ordinary course of business, and that even if the transaction was construed according to the Scottish law he was covered by that exception in the statute of 1696.

Judge Shewell Cooper held there was an implied agreement between the parties that accounts should be paid by bills such as was sent by Goodman, and therefore in law delivery was made when it was posted in Glasgow. That made the transaction subject to Scottish law. With regard to the second point, that the bill was given in the ordinary course of business, he had read the decisions in the Scottish Courts dealing with the point, and could not take the view that the words "in the ordinary course of business" meant the ordinary course of business between the parties. His view was that it meant ordinary course of business in existence in the trading community. He did not think that payment of accounts by bills drawn either by the debtor or third parties and accepted by the debtor was a usual method of payment, and therefore he held that the payment of the bill in the present case was not in the ordinary course of business. The plaintiff must therefore succeed, and he gave judgment for the plaintiff for the amount claimed, with costs. A stay of execution was granted on the application of Mr. Macaskie.

SIR JOSIAH STAMP ON THE COAL REPORT

Speaking at Leeds recently Sir Josiah Stamp said that the Coal Report, so far from being a collection of mere negations without value for the immediate purpose in hand, as some critics had represented it, was a document of great positive value forthwith.

Some were disappointed because it did not produce a magic talisman and said it had failed to find a great immediate solution. But it could not find what does not exist, and it was an important step gained to have laid bare the whole field of possibility and proved conclusively, even to a prejudiced reader, that there is no easy road out, because we could now face the inevitable and disagreeable facts and need no longer delay and delude ourselves with fancies and quack remedies. It was always an important public service to lay bare the hard corners of economic facts, and, however much for social and humanitarian reasons we may pad them for a time, to distinguish padding from what is real, the actual and unescapeable from the temporary and artificial.

In economic questions people nursed delusions and occupied untenable ground until inexorable events forced them to face realities. We had passed through this stage in the relation between politics and reparations. French politicians had yet to face it in the relation between currency and taxation. A Frenchman had exclaimed that "the worst of economic laws is they are so unjust." From July to May represented an immense step in public willingness to recognise realities, and this was a costly but essential stage.

Whether we liked it or not, it was an economic law that where the marginal real reward being paid in an industry exceeded the marginal net product, that industry was out of equilibrium and must be contracted.

In other words, if at that point where it was least worth while to continue contributing towards the general output the contribution of a unit of effort was such as would exchange for x goods, and the unit demands for its upkeep or reward $x + y$ goods, the supply must either be contracted until the price given for the last unit was $x + y$ goods, or the reward demanded must diminish to x, or, perhaps, both contraction of supply and lessened reward could proceed together and meet at $x + \frac{1}{2}y$. (This meant meeting the emergency by some further unemployment and shutting down, and by some reduction in wages acting together.) But meet they must, and this fact was at last being recognised.

Sir Josiah said that there had been a fall in the price level in the past year or two of 15 per cent. or so, which he sincerely hoped, for the sake of peace and progress in industry, was the last of the rapid changes of this kind. Relief might come either by the cost of living index following downward at an early date, or by the general value of gold again falling appreciably (and gold prices rising) without the cost of living index sensibly changing. While a higher gold price of coal was not a very welcome prospect to industry, it would be the lesser of two evils. The shrinkage in the physical result of human effort, so that it now took seven men to produce what six used to do, was a fact of fundamental importance, and it was most unfortunate that the community should be called upon to face it at a time when the real value of money payments, in an industry of such fine margins, had been changing so rapidly.

Sir Josiah thought that the contribution of the report to the ultimate problem of remodelling the industry was most valuable, and in many features quite new. But even allowing for the full effect of these suggestions, he thought that the industry would not be in equilibrium between price and the present idea of a minimum wage until it was contracted by at least 15 per cent. of its present magnitude.

It could, of course, be kept at its present size by a continued subsidy, but its reduction would inevitably involve the State in unemployment grants and financial assistance in the transfer of labour, housing, &c. It was not a question of balancing these two respective outlays, because the second would still have to be faced some day, however long the subsidy went on, and, therefore, might as well be faced soon, and the subsidy saved at any rate in part.

He thought one of the most serious features of the situation was that the general remodelling of the industry as suggested involved the introduction of new capital on a considerable scale into middle-aged pits, and the economic circumstances were not such as to attract that capital even after anticipating in the attraction the full ultimate results of its introduction. But a fearless policy of contraction in the least profitable areas would go some way to remedy this difficulty.

Sir Josiah referred to the exactness of the relation that had existed since the war between the ups and downs of real wages and the ups and downs of unemployment, showing that whenever the cost of living fell and turned money wages into higher real wages, there was increased unemployment. This arose because the total quantity of goods not having expanded with the rise in real wages, such increased real wages could only be paid to a smaller number.

It was to be hoped that on the ensuing fall in the cost of living and the next rise in real wages this sinister relationship would be broken at last by a general and balanced advance in production.

District Societies of Incorporated Accountants.

NEWCASTLE-ON-TYNE.

At a recent meeting of this Society, held at the Technical College, Sunderland, Mr. Alfred Palmer, A.S.A.A., read a paper entitled "Some Notes on Share Capital." The chair was taken by Mr. William Hughes, F.S.A.A. (Sunderland).

Mr. Palmer analysed the true nature of a share in a limited company, and emphasised the fact that the nominal value is often no indication of the real value. He emphasised the freedom allowed by English company law regarding the formation and carrying on of companies compared with the regulations and restrictions imposed by American, French and German law.

After explaining in detail the rights and liabilities attached to various classes of shares, the Lecturer dealt fully with the changes which a company may effect in its share capital. The reduction of capital, of which there have been a number of important instances recently, merely recognised the accomplished fact of revenue or capital losses.

The intrinsic worth of a company's assets were not affected by the process of capital reduction, and, though often unpopular with shareholders, the reduction enabled a company to make a fresh start and resume the payment of dividends when profit again emerged.

YORKSHIRE.

The eleventh meeting of the current session of this Society was held at Leeds on March 2nd, when an address was given by Mr. E. Miles Taylor, F.C.A. (London), on "Examination Hints in Costing and Accountancy." Mr. William Gaunt, F.S.A.A., occupied the chair.

Manchester and District Society of Incorporated Accountants.

The annual dinner of this Society was held at the Midland Hotel, Manchester, on February 25th. Mr. George A. Marriott, F.S.A.A. (President of the Society), occupied the chair, and among those present were the Lord Mayor of Manchester (Councillor Miles E. Mitchell), the Town Clerk of Salford (Mr. L. C. Evans), His Honour Judge T. B. Leigh (Manchester County Court), Mr. George Stanhope Pitt, F.S.A.A. (President of the Society of Incorporated Accountants and Auditors), Mr. Spurley Hey (Director of Education, Manchester), Mr. Alexander A. Garrett (Secretary of the Society of Incorporated Accountants and Auditors), Mr. Henry L. Marsden (Principal of the Municipal High School of Commerce), Mr. W. H. Goulty (President of the Manchester Statistical Society), Mr. W. E. Thompson (Vice-President of the Manchester Chamber of Commerce), Mr. E. Raymond Streat (Secretary of the Manchester Chamber of Commerce), Mr. Percy Woodhouse (District General Manager of the Bank of Liverpool and Martin's, Limited), Mr. E. J. Bowerbank (Manager of Lloyds Bank Limited), Mr. P. Forrester (Managing Director of the Union Bank of Manchester, Limited), Mr. R. T. Hindley (General Manager of Williams Deacon's Bank, Limited), Mr. N. J. Laski (Barrister-at-Law), Mr. G. Bradbury (Senior Inspector of Taxes for Manchester), Mr. F. Murgatroyd (Official Receiver for Manchester), Mr. C. H. Wells, F.S.A.A. (President of the Sheffield District Society), Mr. C. R. Whitnall, F.S.A.A. (President of the Liverpool District Society), Mr. Denis Hickey, Mr. Arnold Whately Balmer (Comptroller to the Manchester Overseers), Mr. T. C. Locker, Mr. R. J. Walker, Mr. J. Cuming Walters, and Mr. J. Lea Axon (Secretary of the Manchester Rotary Club).

The CHAIRMAN proposed the toast of "Our Legislators and Administrators, Parliamentary and Municipal." He said it was regrettable that there were not many more business men in Parliament than there were at present, because there were many reforms needed for which business men only were likely to press. Among the foremost of these reforms was a measure that would require all Government departments to present to Parliament proper accounts and balance-sheets at the end of each financial year. Our system of municipal account keeping, and the admirable detailed and analytical manner in which the municipal accounts of this country were presented to the public, were the envy and admiration of the whole world. Why was it that we did not insist on similar detailed accounts from the great spending departments of the national Government? Hardly any Government department presented to Parliament a proper statement of accounts with a balance-sheet. In 1919 the War Office set up a system of accounting. Expert accountants were consulted and a modern system of cost accounting was devised, the old system which had been in operation in the days of Cromwell being scrapped. As a result of this system the War Office was able at the end of March, 1922, to issue detailed accounts which enabled effective criticism to be made. A few months ago, however, it had been decided to scrap the modern system of accountancy and revert to the old method. He would give an example of the kind of thing which the new system of accountancy revealed. In the old method stocks had always been ignored. The new system, of course, took stocks into account. Now the stock of clothing on April 1st, 1923, was shown to be £26,592,501, the purchases £316,183, the departmental manufactures £345,211, making a total of £27,253,895. On the credit side there was shown a total value of clothing issued £1,178,614, and sales amounting to £174,147, the stock on March 31st, 1924, being £25,901,134. Thus, if a year's issue amounted to £1,179,000, there must be on hand a stock of clothing representing a 22 years supply, and in addition to that a Government factory still going on turning out stock to its utmost capacity. How long would a board of directors of a business remain at the head of affairs if they presented accounts showing results like this? What would the ratepayers of Manchester say if its tramway department were holding a stock of uniforms for their men which would last for the next 22 years? Our representatives in Parliament had just shown that they could influence the Prime Minister when it was a matter of saving a mere £50,000 a year for four years. If they would exert the same pressure in favour of retaining the modern accountancy system at the War Office and extending its application to all the great spending departments they would be the means of saving millions a year of the taxpayers' money.

The LORD MAYOR OF MANCHESTER, in response, said he agreed that there was need for more men with a business training and experience in Parliament, and he would add on our municipal bodies also. A city council like that of Manchester would be the better for a larger infusion of business men and of professional men such as their organisation represented. True, it was said that business and professional men had little time for such work, but there were people who made sacrifices to render service to their city, and he would like respectfully to suggest that members of a great profession like their own, with their special training, owed some little debt of that kind to their city. On the subject of Government economy there was a definite tendency to-day to transfer from the shoulders of the national Government to the shoulders of the municipalities large sums of money which in equity should be national burdens, and national burdens only. That was not economy. Unless some protest was made that tendency would grow, and the result would be a still greater difficulty to restore the prosperity of our industries. The important point to consider was that national taxes, broadly speaking, were not levied unless profits were made, whereas rates were levied and had to be paid whether profits or losses were made. (Hear, hear.)

The TOWN CLERK OF SALFORD, who also responded, said he was not sure whether the Chairman's complaint about Members of Parliament applied to Manchester and Salford. Most of the members of these two boroughs were business men, and one of the members for Salford was an accountant. He supposed that gentleman was regarded as one crying in the wilderness. (Laughter.)

His Honour Judge LEIGH proposed the toast of "The Society of Incorporated Accountants and Auditors," and said that one of the great functions of accountants was to keep trade clean. They had got to scrutinise trading and traders—sometimes as trustees and officers of the Court, and sometimes in other capacities. Sometimes it was their unpleasant duty to expose underhand transactions which required bringing to the light of day so that public opinion might be focussed upon them. They had to watch that no unclean trader should escape exposure and punishment. They had also to watch that where there was a business disaster there should be, as far as practicable, a reasonable dividend secured to the creditors. It was not in the interests of the business community that one crash should produce half-a-dozen consequential crashes, and if the dividend in the case of trader A were too small it might mean that the businesses of traders B, C and D would go under also. He would suggest, therefore, that

in earning the fees they were justly entitled to, they should look to it that those matters which could properly be done by them were done in their offices in order that the whole of the community should profit from the great services which they were able to render. (Applause.)

Mr. George Stanhope Pitt (President of the Society of Incorporated Accountants and Auditors), in acknowledging the toast, reminded the gathering that they were celebrating the 40th anniversary of the Manchester and District Society. On an occasion of that kind he thought they ought to voice their thankfulness to the gentlemen who had been the mainstay of the Society from its very beginning. He referred particularly to their senior Past President of the Parent Society, his old friend Mr. Walmsley. Equally they appreciated the 40 years excellent service of Mr. Piggott as Secretary of the Society. The senior members of the Society had set a magnificent example; it was for the younger members to emulate them. Their President in his speech had referred to the old War Office system of keeping accounts as Cromwellian. The system was older than that. He would describe it as pre-Phœnician. We had to thank the old Phœnicians for the system of double entry, in fact, for any system of accounting; while at the present time our Government departments did not practise the double entry system. Indeed, they had no system at all; it was wrong to call their methods a system. At the beginning he was full of hope that once having got the thin end of the wedge in at the War Office with regard to accounts, the advantages of a proper system would be so evident that other departments would follow suit. Unfortunately disappointment had come. It was only fair to say that their Society did its utmost to help the Government by whatever means were possible in the matter of accountancy reform. Indeed, the Society had, as a special matter, admitted to its examinations certain accountants in Government service having adequate training and experience. He had no doubt that had the department continued with the new system of accountancy, at a very early date we would have seen a further development of accounting in Government departments. With regard to the remarks of His Honour Judge Leigh, he could assure them that all that gentleman had said would be read with pleasure by every Incorporated Accountant. Incorporated Accountants were a goodly body, numbering between 4,000 and 5,000 men, apart from students, scattered throughout the world. Without trade and commerce they as a profession could not exist. The most important thing that trade and industry had to consider to-day was reorganisation. He believed a reorganisation movement was taking place in our trade and industry, and in this movement they could help. In the first place, he was hopeful that the services of accountants would be valuable as between capital and labour. In such work they would be perfectly impartial. They could bring before capital and labour the facts, and surely the facts impartially stated should help to avoid strikes and other such calamities in these times of commercial depression. Then he would emphasise the importance of travelling and selling organisation. At the present time, of course, all large businesses had their private selling departments in the hands of highly skilled men who not only travelled themselves, but took the trouble to teach the younger traveller the art of travelling. But his conviction was, as the result of some little travel on his own part, that we wanted more than that. The time had gone by when the British merchant could stay at home and expect orders from all the world. The British merchant, it was true, did send travellers to most parts of the world, but he himself should travel. That was the finest kind of commercial education, and he was certain that many of our principals would be new men because of it. He spoke with some experience on this subject, because he had recommended this policy to his clients, and it had brought successful results. He believed that no man doing an export trade could call himself educated to a reasonable degree until he had been round the world at least once or twice. Only in that way could such a trader realise the actual wants of his customers. Then he would advocate another specialised department—a propaganda department. He was much struck during the war, while winding up enemy businesses, to find the wonderful manner in which our enemies organised propaganda. Before a great German concern would attempt to do business in England, it would send ahead skilled men who would open a propaganda department, and he was amazed to find the perfection of the organisation of these businesses. At the same time he felt distressed when he saw the undeveloped organisation of similar departments in other businesses. He believed that a large percentage of the advertising done in this country was wasted because it was not done by experts. Propaganda should be done on scientific lines, and should be entrusted to experts. Another department that many businesses needed was an inventions department. He had seen such departments established in businesses in which he was interested, and could assure them that they were a paying proposition. It paid to get the best brains into an inventions department. If those brains only increased the value of their goods by a tiny percentage the department paid for itself, while if they invented some line of outstanding merit, as they frequently did, the result was an increase in the success of the business. Finally, he would like to suggest the organisation of costing. As they knew, there was a growing army of accountants in America. The reason was partly that American businesses were more prosperous, and partly that the American was prepared to pay for the best brains and spend money on a costing department organised and run on scientific lines. When costing departments of this kind were organised and adequate information was available, highly skilled accountants were in a position to advise upon finance. Now sound finance lay at the root of commercial success, and probably on that score alone the Americans were justified in the enterprise they had shown in the organisation of costing and accounting departments. In conclusion, the speaker referred to the Society's headquarters scheme. The Society were desirous of obtaining headquarters in London consistent with their present position, and they were extremely anxious to give this proposal practical shape. A committee of the Council were watching for opportunities, and when suitable premises were secured they would come to the members for support. Any support they asked for would be in the nature of a sound investment. (Applause.)

Mr. Spurley Hey, acknowledging the toast of "Education and Commerce," which was proposed by Mr. J. Cuming Walters, said that for a long time education and industry had coquetted with each other, but had failed to come to very close quarters. He believed there was now an awakening, and industry was beginning to realise that education could do something for it, and education was beginning to see that it must have more regard to the future of the young people with whom it dealt than it had had in the past.

Mr. W. E. Thompson, who also acknowledged the toast, said that all sorts of people were writing to tell the cotton trade how it should be run. He would suggest that some of these people should cease their criticisms and that the accountants should give their advice. He thoroughly endorsed what the President (Mr. Pitt) had said on the subject of travelling. It was quite in accordance with his own experience.

New Legislation affecting Executors, Trustees and Receivers.

A series of three lectures delivered before the Incorporated Accountants' Students' Society of London by

Mr. RONALD F. ROXBURGH, M.A.,
Barrister-at-Law.

LECTURE III.

The chair was occupied by Mr. W. McIntosh Whyte, Incorporated Accountant.

II.—Trustees.

Investment and other General Powers.

Mr. Roxburgh said: The bulk of the Trustee Act, 1925, is re-enactment of previous law. But there are many additional powers, and some modifications, to which I ought shortly to refer. The Act (unless otherwise expressly provided) applies to trusts constituted before or after 1926, and may be varied by the trust instrument (sect. 69).

The first eleven sections deal with investments. In sect. 7 you will find a new power (in the absence of express prohibition by the trust instrument) to retain, or invest in, bearer securities of an authorised character. But bearer securities must be deposited with a banker for safe custody and collection of income. In sect. 10 you will find new powers supplementary to the powers of investment, including a power to concur in reconstructions and similar arrangements by companies, and power to exercise or sell options to take up securities.

Sects. 12 to 25 deal with the general powers of trustees and personal representatives, and while you will find several new or extended powers, you will also remember the over-riding restriction in sect. 14 that a sole trustee (not being a trust corporation) cannot give a valid receipt for capital money arising under a trust for sale of land, or under the Settled Land Act, 1925.

This restriction, which also appears in sect. 27 (2) of the Law of Property Act, 1925, cannot be evaded by any express provision in the trust instrument. But it does not apply to the proceeds of realisation of personal estate. It has been subjected to criticism, and no doubt there are cases where it will cause inconvenience which must appear excessive to those who argue from the particular to the general. But often enough the proceeds of sale of land have gone astray in the hands of an illiterate or dishonest trustee, and Parliament apparently thought this additional safeguard a small price to pay for the many new facilities afforded for dealing with land. You will ask me why the restriction does not extend to personal estate. Perhaps Parliament shrank from imposing restrictions where it was not able to bestow additional facilities to counter-balance them. I do not know. But you find here a compromise of a character which abounds in all our legislation—particularly in our company and bankruptcy law. Abhorrence at the exceptional cases of fraud is tempered by reluctance to impose fetters upon honest dealings which are the general rule.

The examination syllabus draws attention to the new powers in sect. 15 of accepting property before the time at which it is made payable or transferable, and of severing and apportioning any blended trust fund or property. It also mentions sect. 18, in which the law affecting devolution of powers and trusts is codified with slight alteration. A power of trust given to or imposed on trustees jointly, devolves upon the survivors or survivor of them, and (until new trustees are appointed) upon the proving executors or the administrators of the last surviving or continuing trustee. Sect. 23 (also in the examination syllabus) extends the old sect. 17 of the Trustee Act, 1893. Under that section a trustee could authorise a banker or solicitor to receive certain trust moneys. The new section not only reenacts the old, but goes much further, for it confers a general authority upon trustees and personal representatives, instead of acting personally, to employ and pay (at the cost of the trust or the estate) a solicitor, banker, stockbroker or other agent to do any business in connection with the trust or the estate (including the receipt and payment of money), and relieves a trustee or personal representative who acts in good faith from responsibility for the default of any such agent. The section also authorises trustees or personal representatives, where any property is outside the United Kingdom, to appoint an agent or attorney to sell, call in, insure, manage or otherwise administer that property, and exercise any discretion, trust or power in relation thereto.

These sections (12 to 25 inclusive) contain other new provisions of some importance.

To at least one of them I must refer. Sect. 22 (4) empowers trustees from time to time, but not more than once in every three years, unless the nature of the trust or any special dealings with the trust property make a more frequent exercise of the right reasonable, to cause the accounts of the trust property to be audited by an independent accountant. They are to produce such vouchers and give such information to him as he may require. The trustees have power to apportion the cost of the audit between capital and income. In default of any direction to the contrary by the trustees in any special case, costs attributable to capital are to be borne by capital, and costs attributable to income are to be borne by income.

You will notice that this sub-section does not prohibit an audit at shorter intervals than three years. There are small or simple trusts where a more frequent audit would be unnecessary and extravagant. Therefore, trustees have to consider whether or not a more frequent audit is desirable, having regard to the circumstances of their particular trust; and if they conclude upon reasonable grounds that it is, they are protected by this sub-section. But the sub-section might well have been moulded so as to give more encouragement to a healthy practice.

Protection on Distribution.

I must pass now to sects. 26 and 27, which enlarge the protection formerly given to personal representatives on a distribution of the estate, and extend the protection to trustees. There are two particular difficulties which are apt to hamper distribution: (1) liability to a landlord under covenants in a lease, and (2) the possibility of unknown liabilities.

(1) Under the old law a personal representative was protected from liability for future breaches of covenant if he assigned leasehold property to a purchaser for value. But sometimes a purchaser in such a case is hard to find. And the protection is now extended to assignments to beneficiaries, who acquire their interests without payment. If a personal representative or trustee is liable as such for any rent, or upon any covenant under a lease or underlease, or for any rent or upon any covenant in a grant in consideration of a rentcharge or (and this is new) any indemnity given in respect

of any such rent or covenant, he must satisfy all liabilities which have accrued and* been claimed up to date. He must also (where necessary) set apart a sufficient fund to answer any future claim in respect of any fixed sum agreed to be laid out on the property. Having done this, he may convey either to a purchaser or a beneficiary, and distribute the rest of the estate, and he will escape liability in respect of any subsequent claim. The remedy of the lessor or grantor is thereafter against the beneficiaries.

(2) Again, under the new law, not only personal representatives, but trustees may make a distribution among beneficiaries without regard to claims of which they have no notice, after they have given proper notice by advertisement of their intention to do so, and have waited for the period (not being less than two months) within which they have required claims to be sent in. But with regard to land, they must also make the searches which a purchaser ought to make. After distribution, the remedy of any creditor is against the beneficiaries.

The rest of the Act is concerned in the main with powers of maintenance and advancement, appointment of trustees (which in the case of trusts for sale of land are limited to four—sect. 34), vesting orders, the relief of trustees from liability for innocent breaches of trust, and the impounding of the interest of a beneficiary who instigates a breach of trust. But with regard to the appointment of trustees, I ought to mention a retrospective amendment in sect. 36 (4), which provides that where the executors of a last surviving or continuing trustee appoint new trustees, the concurrence in the appointment of executors who renounced or did not prove, is not, and never was, necessary.

I must also refer to the important new provision in sect. 57, which empowers the Court to authorise any transaction in the management or administration of any property vested in trustees which the Court thinks expedient.

Death Duties.

Counterbalancing the new powers conferred on trustees, the Law of Property Act, 1925, sect. 16, imposes an important responsibility. Trustees for sale in whom a legal estate in land is vested are personally accountable for death duties upon land conveyed by them upon sale under their trust for sale to the full extent of the assets which are or ought to be in their hands and available for the payment of death duties.

Trustees in Bankruptcy.

My next duty is to say something about trustees in bankruptcy. Sect. 2 of the Land Charges Act, 1925, introduces bankruptcy petitions (whether known to affect land or not) into the category of pending actions which can be registered at the Land Registry, and such petitions, when filed against a firm, should be registered against the name of each partner as well as against the firm. In general, a pending action does not bind a purchaser of land unless he has express notice of it, or it is effectively registered, sect. 3. But as regards petitions in bankruptcy there are two provisos to the general rule: one against a purchaser, and the other in his favour. For even if a bankruptcy petition is not registered, a purchaser, in order to be able to defeat the title of the trustee in bankruptcy, must be something more than a purchaser without express notice. He must be a purchaser for money or money's worth, purchasing a legal estate in land in good faith without notice of an available act of bankruptcy. The other proviso, which is in favour of the purchaser, is that such a purchaser is not affected with notice of an act of bankruptcy by reason of the presentation of a bankruptcy petition unless it is effectively registered, or a receiving order is registered. The first proviso is essential to protect creditors against fraud; the second is to encourage the registration of bankruptcy petitions, and to give reasonable protection to a *bonâ fide* purchaser who searches the register.

Sect. 6 of the Land Charges Act, 1925, introduces receiving orders into the category of writs and orders which may be registered, whether or not they are known to affect land. The general rule affecting writs and orders is that they are void against a purchaser of land unless effectively registered. But in relation to receiving orders you will find two provisos—one against and the other in favour of the purchaser—corresponding to those applicable to bankruptcy petitions.

Registration of bankruptcy petitions and receiving orders is effective for five years from date of registration, but may be renewed for periods of five years. Registration is made against the person whose land (if any) is affected. An entry in the register may be vacated by an Order of the Court, and the Registrar may enter up a discharge or satisfaction, and issue a certificate thereof upon production of an order of discharge or an acknowledgment of satisfaction.

We now come to a new provision which affects both trustees in bankruptcy and receivers, and is to be found in sect. 110 of the Law of Property Act, 1925.

III.—Receivers.

Mortgagees' Powers of Sale, and Receivers.

Nothing is more common in the life of a mortgagee than reluctance of his mortgagor to pay. In this sorry state of affairs the mortgagee has a number of remedies, amongst which are sale of the security and the appointment of a receiver.

Where the mortgage is made by deed (and not otherwise) the mortgagee has an implied statutory power to sell the mortgaged property, and to appoint a receiver of the income of the mortgaged property. But these powers are (in the absence of other provisions) only exercisable when the mortgage money has become due, and either default has been made in payment of some part thereof for three months after service of a demand therefor, or some interest is two months in arrear, or there has been a breach of some obligation imposed upon the mortgagor by the mortgage or by statute other than the stipulations for payment of principal and interest (Law of Property Act, 1925, sects. 101, 103, 109).

These implied statutory powers may be, and often are, varied by express provisions in the mortgage deed; and the implied statutory restrictions upon their exercise may be, and often are, curtailed or excluded (sect. 101 (3) (4)).

But where the statutory power of sale, or an express power of sale, or the statutory or an express power to appoint a receiver, is made exercisable by reason of the mortgagor committing an act of bankruptcy or being adjudged bankrupt, the power may not be exercised without the leave of the Court (sect. 110). This section only applies to mortgages made after 1925, and the restriction imposed by it does not apply where the power is exercisable also on some other ground.

The implied statutory power to appoint a receiver of the income of the mortgaged property, when a case for appointment has arisen, is not new; but the power is now

* The word "or" which occurs in the Act is a slip in drafting, and is being amended.

extended to a receiver of the property itself where (and only where) the mortgaged property consists of an interest in income, or of a rentcharge or an annual or other periodical sum (sect. 101).

Powers and Duties of Receivers.

The method of appointment of a receiver, and his implied statutory powers and duties are (speaking in general terms), the same as they were under the old law except that money received by the receiver, after provision has been made for outgoings, payments having priority to the mortgage, commission, premiums and repairs, and interest on the mortgage, is to be applied "in or towards discharge of the principal money if so directed in writing by the mortgagee." The surplus, if any, is payable to the mortgagor or persons claiming through him (Law of Property Act, 1925, sect. 109).

All these powers and duties may be varied or extended by the mortgage (sect. 101 (3)), and care must always be taken to consult the mortgage deed.

Discussion.

Mr. S. E. Straker: The Lecturer told us, with regard to trust deeds, that the Act was retrospective. Where a trust deed having been executed before the Act came into force is directly at variance with the Act and so does not refer to it, does the deed hold good as against the Act? Then with regard to bearer securities: when I first read the Act I was rather under the impression that it was only trust corporations who had power to hold such securities, but I find that it is not so. Even if it were, from an auditing point of view I cannot see the force of allowing trustees to hold bearer securities, and I was wondering whether the Lecturer could tell us the reason for it. Personally, in an auditing connection, I have often had great difficulty in cases where trustees are trustees of various other trusts. The securities of each, being held in the same names, cannot be separately identified as belonging to a specific trust, and it strikes me that that provides a loophole which the Act has made wider. Under the Government Stock Regulations, 1918, stock can be inscribed at the Bank of England in the names of trustees as trustees of a specific trust, and one would almost have looked for that provision to be incorporated in this Act. Under the numbering or lettering system of identifying accounts it rarely happens that the accounts of a trust, which are at all numerous, are all under the same number or letter in the same trust. With regard to sect. 23, where the trustee is empowered to employ agents, I was wondering whether the Lecturer could tell us if these agents' fees will be allowed by the Income Tax Authorities as a charge against income where there is a tenant-for-life? I believe recently these expenses have been disallowed by the Revenue Authorities, even where they are authorised by the will or other deed. Then there is a paragraph which deals with registration in bankruptcies at the Land Registry. Where the title to the land in question is not on a land certificate but on an ordinary deed, which is not registered at the Land Registry, what point would there be in registering a charge at the Land Registry?

Mr. W. Strachan, Incorporated Accountant: It seems to me that the Trustee Act presents more difficulties for us, as accountants than the Administration of Estates Act, on account of the fact that many of its provisions are not quite clear, as has been mentioned by the Lecturer to-night. There are one or two points I would like to put to the Lecturer upon which he may be able to enlighten us in his reply. The first is with regard to the audit. We know that trustees have a discretion as to whether they shall have an audit more than once in three years. In this connection I can quite see trustees being in a difficulty as to whether they shall have an audit or not, and as to whether, if they do have an audit more frequently than once in three years, they may not be held to have exceeded their powers. Is there any test that can be applied as a guide in using this to say whether trustees shall have discretion? The Act seems to be rather vague, and I should think the result would be that trustees very often would hesitate to exercise the power vested in them, in case they might be held to have been guilty of some default. The second point I would like to put to the Lecturer is this: With regard to leasehold property, he referred to those cases where leaseholds were running out and where there were heavy dilapidations. Well, these can be assigned to a purchaser for value, or to a beneficiary without value, but supposing these dilapidations are such that neither a purchaser for value nor a beneficiary willing to take them over can be found, what is the position of the lessor? Can he, although his lease has not run out, make a claim for the dilapidations? For instance, what is his position supposing the lease has a couple of years to run and everybody knows that when the two years are up there will be heavy dilapidations? Nobody wants to take it over; how then is the trustee to deal with it? Can the lessor make his claim before the end of the two years? There is another matter I intended to mention which should have come under my first question. Trustees have the power to appoint an agent. Supposing a trustee is a professional accountant, can he appoint his firm or another accountant to do the accountancy work, or is he expected to do that work himself? If he is not entitled to delegate he would seem to be in a worse position than a trustee who is not an accountant, because he would have to do the work himself and would get nothing for it except as a beneficiary under the trust, unless there was a special provision for remuneration. The last thing I wish to mention has reference to deeds of arrangement and bankruptcy. It has been pointed out by the Lecturer that a single trustee cannot deal with land. That, I take it, would apply to a trustee under a deed of arrangement or a trustee in bankruptcy. If so, we have the anomalous position that a single trustee can realise all the other property of the estate but he cannot realise any small parcel of land, and I think the restriction applies to leasehold as well as to freehold land. Does it also apply to a liquidator? Is he a trustee within the meaning of this Act, or is he in the position of agent for the company, and can therefore act in that capacity? These questions are rather important, and I think there will be some trouble before they are satisfactorily settled. It is perhaps too much to expect Mr. Roxburgh to give his opinion on the spur of the moment, but I think it is worth while raising the questions, because they will have to be settled, and probably at an early date.

Mr. E. W. Longhurst: I have just one point, and that is: what is the position of the beneficiaries of a trust in regard to their right to demand presentation of accounts? The trustee and the executor having discretionary powers with regard to audit not more than once in every three years, does this discretionary power take away the statutory right of the life tenant to demand accounts at intervals of less than three years if he is dissatisfied with the executor or trustee, or with the method in which the trust is being carried out?

Mr. D. N. Crick, Incorporated Accountant: In regard to the funding of liabilities subsisting under a lease at the date of death, I recall a remark made in a previous lecture to the effect that a beneficiary must take any specific bequest subject to encumbrances. I suppose the beneficiary would have to foot the bill for repairs accrued due at the date of death, or indemnify the trustee in respect of that liability? I wonder if the position would be altered if a leasehold were left in trust to pay the income therefrom to a tenant-for-life? The question of the three-yearly audit is intriguing. In executorship work, accountants are usually employed *qua* accountants. We can therefore carry on as usual merely by charging one audit fee every three years, and, at other times, making out our bill for "accountancy charges."

Mr. A. A. Garrett, B.Sc.: I speak somewhat superficially with regard to the point Mr. Strachan and Mr. Crick referred to, as to the audit of trustees' accounts at the option of the trustee once in three years. If we can divest our minds of the immediate pecuniary interest which accountants may or may not have in that clause, I think there still remains a very serious question in it, which leaves the trustee very much in doubt as to what he may or may not do. I therefore think that Incorporated Accountants should give consideration to what that clause really means, because I have heard—I do not know how true it is—that an Amending Bill is on the stocks, and if there is any vital question of interest, either from the point of view of the public or from that of the

trustee, we ought as a professional body to consider it very seriously.

Mr. G. H. Bridge, Incorporated Accountant: Mr. Strachan referred to the Trustee Act, 1925, and to the authority to delegate to an agent. I wonder if the Lecturer would mind telling us how far it is necessary for that delegation to be expressed in the sense that there must be written instructions? We can conceive a case where there may be an accountant, an ordinary individual, and a solicitor as trustee. The solicitor would probably conduct most of the trust business either personally or through his firm. If the first-named trustee were the accountant and not the solicitor, must that accountant give written instructions to the solicitor or his firm in order that he may be free from responsibility, in spite of the fact that the firm of solicitors is conducting the business of the trust?

Mr. Roxburgh: You have given me a still more difficult collection of questions this time. The first relates to the retrospective effect of the Act. There are certain provisions (and one of them I mentioned to you in particular, viz, the provision in sect. 14) which apply notwithstanding anything in the trust instrument, whether executed before or after January 1st, 1926. On the other hand, many of the provisions of the Trustee Act, 1925, can be varied by the trust instrument whether that instrument was made before or after January 1st, 1926. With regard to the merits of allowing bearer securities to be held by trustees, I feel that is more a question for members of your profession, who have practical experience of these questions, and for Parliament, than for members of the legal profession. But I am not sure whether the provision that bearer securities must be deposited with a banker for the collection of income would not get over the difficulty. Ought not the trustees to identify their various accounts in such a way that there would be no confusion at the bank? I could not commit myself to any answer as to the probable attitude of the Inland Revenue towards sect. 23. With regard to the registration of land charges at the Land Registry, the object of such registration, where the title to the land is not registered, is to facilitate dealings in the land by enabling purchasers and mortgagees to ascertain the encumbrances to which the land is subject. The position of a trustee or personal representative in relation to onerous covenants in a lease, is this: the landlord cannot enforce the covenants before the proper time; but by merely giving notice of his claim, and apart from the provisions of the protecting section (sect. 26) he can effectually compel the trustees or personal representatives to make provision for his claim before making any distribution of any part of the estate among beneficiaries. For liability under covenant in a lease, though contingent or future, takes priority over all beneficial interests; therefore, unless the trustees or personal representatives can come to terms with the landlord, or bring themselves within sect. 26, they cannot make any distribution without making provision for all possible claims under the lease. The question raised as to the construction of sect. 23 (1) is very difficult, and professional persons who are asked to act as trustees or personal representatives should press for a more explicit express provision (such as is commonly inserted in settlements and wills). There is nothing on the face of the section to prevent an accountant who is a trustee from employing and paying another accountant. But I have a shrewd suspicion that the Courts will interpret that sub-section by saying that in every case the trustee must act reasonably, and that in matters with which, by reason of his own professional skill, the accountant trustee could easily deal he ought not to employ further assistance, although in a complicated and involved trust it would be quite proper to invoke assistance, notwithstanding that the trustee was professionally qualified to do the work himself. I regard this question as one of difficulty, and not capable at the moment of a precise answer. Looking at the section and considering the general atmosphere of the Courts, I should advise an accountant (in the absence of an express power) to be extremely careful before employing another person in the same profession to do any work which falls upon him as a trustee; and the same would apply to a solicitor, or any other person in a professional position. But it is a matter upon which we shall no doubt get decisions before very long. There is nothing in the sub-section which requires an express delegation in writing, and I do not think the Courts would imply any such necessity. But written records of all such transactions are pre-eminently desirable. I think there is no doubt that the restriction in sect. 14 of the Trustee Act, 1925, and the corresponding restriction in sect. 27 of the Law of Property Act, would apply to trustees of a Deed of Arrangement, to whom any land, whether leasehold or freehold, had been conveyed on trust for sale. But I do not think it would apply to a trustee in bankruptcy or a liquidator, because they cannot properly be described as trustees for sale; but as persons having certain statutory powers, the contents of which are to be found in the Bankruptcy and Companies Acts (see the definition of "trustees for sale" in the Trustee Act, 1925, and the Law of Property Act, 1925, with sects. 53 and 55 of the Bankruptcy Act, 1914, and sect. 151 (2) and sect. 186 of the Companies (Consolidation) Act, 1908). The provisions as to audit could not, in any way, affect the right of any beneficiary to call upon a trustee at any time to furnish accounts. But constant calls for detailed accounts can generally be headed off by a request for funds to cover the cost of preparing them. With regard to a specific bequest of leaseholds, the legatee takes them subject to future rent and liabilities, including liability in respect of dilapidations existing at the death of the testator. If the liabilities render the gift worthless the legatee will disclaim, and the personal representatives will then have to deal with the landlord. Where leaseholds are bequeathed to trustees upon trust for a tenant-for-life with remainder over, the question where the cost of repairs falls depends, first of all, upon the provisions of the instrument, or, if there are none, upon some rather intricate considerations (see Gover on "Capital and Income," p. 57). But, in the absence of contrary provision, it falls upon those entitled to the specific property in exoneration of the general estate. I think I have now covered, to the best of my ability, though with many omissions, I fear, the questions which have been put to me.

The Chairman proposed a very hearty vote of thanks to Mr. Roxburgh for the three lectures he had delivered, and this was seconded by Mr. G. H. Bridge and carried unanimously.

Correspondence.

COMMERCIAL GOODWILL.

To the Editors *Incorporated Accountants' Journal.*

Sirs,—Having obtained from Mr. P. D. Leake, in his letter published in the March issue of the *Journal*, an admission that a valuable goodwill may attach to a business even where past losses obtain in that business, may I be allowed to pursue the matter a little further?

In spite of and following this admission, Mr. Leake persists in his statement that "the exchangeable value of goodwill at any time depends upon the amount and duration of future super-profit," to which he adds a rider that "past profits are, however, the best guide to future results."

The law is recognised as a "hass," but it certainly cannot lay down that the offspring is its own father; neither can it define purchased goodwill as capitalised future super-profit, for goodwill together with the other assets of the business are the producers of the super-profit although their productive powers in this respect may be temporarily sterilised by certain influences pointed out by me in my previous letter. Nevertheless it still remains.

Although ready and willing to be convinced, Mr. Leake's letter leaves me more than ever certain that goodwill does not represent a purchase of future super-profits, and that past super-profits, and sometimes even the whole of those past profits over a number of years, are merely taken as a measure of the value of goodwill owing to the intangible nature of this asset and because they reflect its value.

I quite agree with Mr. Leake that this question of goodwill requires careful consideration and discussion, but it must be a practical and not a theoretical discussion based on false theories, otherwise it will lead nowhere.

In conclusion I should like to put the following practical questions to Mr. Leake:—

1.—(*a*) Is it not a fact that, whenever any asset is purchased for business use, the purchaser considers the purchase price in the light of the capacity of such asset to earn future super-profit?

(*b*) Otherwise would he not put his money into gilt edged securities and rest content to receive the interest therefrom?

2.—Does no capital value attach to the pioneering work performed or acquired by the vendor and used in the business? If yes, does the vendor give it to the purchaser of his business, or if sold under what name is it sold if not as goodwill? Has such pioneering work no super-profit earning capacity?

3.—If, as agreed, a valuable goodwill can exist even though there be past losses, what is to be the basis of its valuation if purchased goodwill is nothing more than the purchase of future super-profit? If valued on the basis of estimated future super-profit how is such estimate to be arrived at?

4.—If the contention be true that future super-profit is purchased goodwill in the mind of the purchaser, when he makes a purchase of such in connection with a business having a history of past losses, would he not be paying for something which does not reside in the business purchased but which will be created by his own efforts and enterprise?

Yours faithfully,

Spencer House, London, E.C.2.

ROBERT ASHWORTH, F.S.A.A., A.C.A.

To the Editors *Incorporated Accountants' Journal.*

Sirs,—In your issue of March, Mr. Leake misquotes from my letter, and thereby leads one to suppose that the question I raised was "how it is possible in estimating the value of goodwill to take into consideration the probable average rate of income tax during the appropriate period of future years." With all due respect to Mr. Leake, I venture to suggest that such a question would be nothing less than balderdash, whereas the question I did ask was perfectly intelligible.

In order that any interested reader may understand my difficulty and the reason for my original question, it is necessary for me to restate the point at issue.

In his article on the above-named subject, Mr. Leake stated that in estimating the value of goodwill, income tax should always be taken into account. I asked how it was to be done. Mr. Leake now states that graduated taxation is not a factor which can affect the exchangeable value of commercial goodwill, and that the only factor to be taken into consideration is the probable standard rate of income tax. He says nothing of super tax.

As the outstanding feature of British income tax is that it is graded and progressive and has no standard rate, I cannot make any sense out of Mr. Leake's reply to my question. The flat or standard rate mentioned in each Budget is merely a pivot upon which to work for the deduction of tax at the source, and even so, that standard rate does not embrace super tax, which is part of our income tax.

Yours, &c.,

A. B.

North Staffordshire District Society of Incorporated Accountants.

Dinner at Stoke-on-Trent.

The first annual dinner of this Society was held at the North Stafford Hotel, Stoke-on-Trent, on March 26th. Mr. Thomas Thompson, President of the District Society, presided, and among those present were: His Worship the Mayor of Stoke-on-Trent (Alderman F. Hayward), Mr. Thomas Keens (Vice-President of the Society of Incorporated Accountants and Auditors), Alderman F. Collis, J.P. (ex-Mayor of Stoke-on-Trent), Mr. Wm. Rhodes, J.P., Mr. James Paterson (Glasgow), Mr. A. E. Piggott (Secretary of the Manchester District Society), Mr. G. A. Marriott (President of the Manchester District Society), Mr. A. A. Garrett (Secretary of the Society of Incorporated Accountants), Mr. D. B. Ellis (Solicitor), Mr. J. N. Bell (President of the North Staffordshire Branch of the Institute of Bankers), Mr. R. P. G. Williamson, M.A. (Director of Education), Mr. Albert Bates (Vice-President), Mr. J. Paterson Brodie (Honorary Secretary of the local Society), Mr. Donald H. Bates (Honorary Treasurer).

Mr. J. Paterson Brodie, in submitting the toast of "The City of Stoke-on-Trent and its Industries," said he considered it a pleasure to be permitted to do so at that their first annual dinner. (Hear, hear.) He would like first of all to express not only his own personal thanks, but those of the District Society, to his Worship the Mayor for kindly consenting to attend this the first function arranged by their local organisation, which had only been in existence for twelve months. (Hear, hear.) He also considered it a compliment that their President should be the City Treasurer. Mr. Paterson Brodie took the opportunity to refer to the late Alderman Geen, who had been so influential in bringing the Potteries into the federated borough of Stoke-on-Trent, and whose memory amongst accountants would never be forgotten.

He ventured to approach this toast of the City of Stoke-on-Trent from the accountants' standpoint, and he particularly welcomed the introduction of new industries. Another matter which appealed to the accountancy profession was the new Rating Act. It was a great pity that just on the eve of the Act coming into force the local board of guardians should have gone to the expense of something like £17,000 to bring about the re-valuation of the district. So far as Incorporated Accountants and municipal Government were concerned, it did not seem to be quite fitting to the dignity of a city that it should still resort to the old principle of electing auditors. Now the federated borough had attained the dignity of a city it should put its house in order and, like other cities, should have a professional auditor to audit the accounts of the corporation. (Hear, hear.) Mr. Paterson Brodie then went on to refer to the education department of the corporation, which he thought might look into the matter of providing facilities for courses in accountancy, certain law subjects, economic subjects—costing and so forth—necessary for examinations, so that students would not have to rely entirely on postal coaching. He was certain something could be done in that direction if the President consulted the newly formed Societies in the district. He then went on to speak of the pottery industry, and also desired to associate the toast with the name of Mr. Wm. Rhodes, as he felt that he was introducing to them one of the masters of pottery in the district. (Applause.)

In conclusion, Mr. Paterson Brodie said all accountants looked forward with some anxiety to Mr. Winston Churchill's next Budget. They all hoped that the Chancellor of the Exchequer would see his way to give some relief in the direction of a reduction in income tax. (Applause.)

The Mayor (Alderman F. Hayward) in responding, jocularly remarked that he was glad he had not to deal with the last part of Mr. Paterson Brodie's speech. While his Worship agreed with the sentiments expressed, he must disclaim any responsibility for the figure at which income tax was going to be during the next year. (Laughter.) He was one of those who believed that it was unwise to divide a toast of that character. The good health of the city was dependent upon its industries. The city of Stoke-on-Trent consisted almost exclusively of an industrial population and depended on the wealth and well being of the industries within its borders for its livelihood. In looking after the population, which was constantly growing, it was up to the City Council to bring within the scope of its borders industries which were going to find employment for its population, and it was from that point of view that the City Council had approached the question of bringing into the district the Michelin Tyre Company. They were hoping that the scheme would materialise soon for the establishment of works in the city. Personally, the Mayor felt that when this new industry was set going it would justify itself from an accountant's point of view. (Hear, hear.) The point raised by the mover (the Mayor continued) with respect to the position of the Poor Law and assessment authority was one of considerable importance, and he, like Mr. Paterson Brodie, regretted that a fresh assessment under the new Act was necessary. The de-rating of machinery would be an important factor in every industrial area, and while it might be claimed that, in some degree, it was going to assist trade, one had to remember that de-rating of machinery meant passing on rates to other classes of assessments. The question of rating, of course, was an important matter from the accountant's point of view, and it seemed to his Worship that when the new Act came into operation there would be some accounting to be done in order to explain the positions that would arise in regard to certain classes of property. If the North Staffordshire District Society of Incorporated Accountants raised itself to a high standard through its organisation then it was going to have the reputation of being a body which comprised efficient men. He thought the same principle applied to the city of Stoke-on-Trent. He was all out for advertising the city. As a city its products were the best of their kind: it seemed to him that until they were able to take an enterprising view, to look out beyond their own borders, and bring to the notice of the world in general the fact that they were there, they would never enjoy their full measure of prosperity. (Applause.) His Worship then referred to the forthcoming Civic Week, which it is proposed to hold from May 3rd to May 8th (both dates inclusive). Civic Week, he said, had two functions: to advertise the city as an industrial centre, and give an opportunity to the people of the district to know and see what they were getting for the rates which they paid.

Mr. Wm. Rhodes, J.P., who also responded, dealt principally with the pottery industry and the value of advertising it. Civic Week would provide an excellent opportunity of doing so.

Alderman F. Collis proposed the principal toast of the evening, "The Society of Incorporated Accountants and Auditors (A.D. 1885); its Branches and District Societies." "I would not be an accountant," he said, midst much laughter, "for the world; I would sooner belong to a good old fashioned calling. I would rather belong to my own." The Alderman then paid a compliment to the President of their District Society, whom he had known, he said, for more years than he cared to remember. Before one became an accountant one had got to have a reputation, and when one had got it one must keep it. (Laughter.) He thought he always looked upon accountants more or less as experts. He envied them because he always seemed to be afraid of them. They said an expert was a man who knew nothing else but his job, but they did. Sometimes they dabbled in the law, and sometimes they took a little bit of a job from them (the solicitors), but they did not mind so long as they did not go too far. (Laughter.) The Alderman concluded by observing he was strongly of opinion there ought to be some kind of law passed whereby the accounts of corporations should be audited by professional men, instead of by elective auditors, who might be, but frequently were not, qualified accountants at all. He took it that accountants would very shortly call attention to that fact. (Applause.)

Mr. Thomas Keens responded to the toast. He prefaced his address by congratulating Stoke-on-Trent on having an ex-Mayor of the borough who could so enliven their proceedings in the way he had done. As a profession, Mr. Keens could assure the Alderman they had never admitted that they were under paid. Mr. Keens desired to thank him for the terms in which he had referred to the necessity of the accounts of that great city being professionally audited. It was a well known fact that in many parts of the country that particular office of elective auditor was little less than a scandal. At the same time he would like to remind Alderman Collis that the Joint Select Committee of both Houses of Parliament on Local Government in 1908 unanimously recommended that accounts should no longer be audited by elective auditors, but by Chartered and Incorporated Accountants only. Turning to industry Mr. Keens suggested it was time they got a real view of the state of affairs in this country. They were too much subjected to a sense of calculated pessimism and optimism. As to the value of the professional accountant, that must obviously depend upon his being properly qualified by training, by study, by experience, by knowledge of business, of men and of things, and therefore it became extremely important that they should—as the proposer had so properly said—make up their minds that they must at all hazards maintain and extend the standard of the training and the qualifications of the Incorporated Accountant, and that their Council were not likely to lose sight of. To the District Society he brought the greetings of the President and the Council. They fully appreciated the services which the District Societies were rendering to the profession, and particularly the Branch they represented. The Council wished them all possible success, and urged them to greater developments. He was particularly anxious to see that the District Societies were suitably housed, with the proper facilities for lectures, for the meetings, and for social intercourse. He laid great stress on the latter. In his view membership of a District Society should be compulsory. It ought not to be a mere voluntary matter for those living in an area to join or not to join. His view was that they ought to spare no expense in keeping the Society and the services their members could render in a much better way before the public. The standard of the examinations of the Society was as high as any examination for accountancy in that or any other country in the world, and the marking was as high as any standard in existence. Having extended their curriculum to include new subjects, they had set the pace for every other body of accountants in the standard to which an examinee must attain if he were to secure his pass.

He drew attention to the very important International Conference to be held at Amsterdam in July, and urged all members to attend it. As to the future of the profession, he supposed they were all appalled at the numbers entering it—some by regular and some by irregular doors. There never had been a time when there had been so much development. He was perfectly sure that as their social life became more complex there would always be appointments for professional accountants who put into their work brain and good character. (Applause.)

Mr. Thomas Thompson, who also responded, said that for some considerable time they had been desirous of forming a local Society. They believed that there was a great future before that district in North Staffordshire, and as it depended entirely on its industries there ought to be a great future for Incorporated Accountants. They desired to make preparation for that situation, and had already a fairly large number of students. As the standard of their examinations was extremely high they considered they ought to see that those students got attention and instruction in order to equip them for the future. The examinations included subjects of industrial economics and costing accounts, and they felt sure that as their students became qualified they would be able to deal with any industrial problems that might arise in the district. (Applause.)

Mr. D. H. Bates in proposing the toast of "The Legal and Kindred Professions," said that the legal profession was closely allied to theirs. He thought banking would be in the same category. (Applause.)

Mr. D. B. Ellis and Mr. J. N. Bell, President of the North Staffordshire Branch of the Institute of Bankers, responded.

The toast of "Our Guests" was proposed by Mr. W. C. Coxon, and responded to by Mr. R. P. G. Williamson, Mr. A. E. Piggott, and Mr. James Paterson.

Obituary.

PATRICK ROBERTSON.

We regret to record the death, which occurred recently in Scotland, of Mr. Patrick Robertson, A.S.A.A., who was Secretary of the Transvaal Branch of the Society of Incorporated Accountants and Auditors from 1904–1910. His certificate of membership in the Society dated from January 16th, 1903.

ROBERT ALFRED SMITHSON.

The death occurred on March 25th of Alderman R. A. Smithson, J.P., F.C.A., of the firm of Messrs. Smithson, Blackburn & Co., of Leeds. Mr. Smithson had only been seriously ill for a few weeks. He was a pioneer of the Leeds Tramways Undertaking, and was associated in the Leeds City Council with the policy of Sir Charles Wilson, M.P., F.S.A.A.

ARMY ACCOUNTING SYSTEM.

In regard to a letter which appeared recently in the *Manchester Guardian*, signed by Mr. George A. Marriott, President of the Manchester and District Society of Incorporated Accountants and Auditors, the following explanation from Mr. Marriott appears in the issue of March 30th:—"With reference to my letter on this matter, which you published in your issue of the 22nd, I should like to make it clear that I was, of course, expressing my own personal views, and not the official opinion of the Council of the Society of Incorporated Accountants."

CLAIM FOR ACCOUNTANTS' CHARGES.

Lien on Books and Papers.

The following is the judgment of Mr. Justice Roche in the case of *Hoale, Smith & Field* (*Professional Accountants*) v. *Tingey*, which was heard in the King's Bench Division towards the end of last month:—

Mr. Justice Roche: In this case the plaintiffs claim a balance of £250 alleged to be the agreed amount due in respect of the remuneration of the plaintiffs for work done as accountants for and on behalf of the defendant. The defendants pleaded case is that there was no agreement, and that the amount claimed is in excess of a reasonable amount for remuneration. The defendant counterclaims for the return of a sum of £200 as overpaid by him, and also claims certain remedies in respect of the detention of his books and papers by the plaintiff firm.

The facts as I find them are these. The plaintiffs are accountants, and the defendant is a confectioner and tobacconist, and he began business on the premises where he now is in about the year 1909 or 1910. Before the war, and still more during the period of the European War of 1914 and 1918, he was making very large profits in the business but unfortunately he permitted himself to make wholly false returns in respect of the taxation which was due from him. In the year 1924 he was found out, and he called in the plaintiffs as accountants to make up his books, or rather to make accounts because there were no books, so as to represent what he had, in fact, earned by way of profit in order to satisfy the Inland Revenue Authorities, who were apparently dissatisfied with the defendant and were determined that he should pay what was due from him to the Crown. The plaintiffs conducted those investigations. It is unnecessary that I should enumerate what they were, but they investigated them under very difficult circumstances, because obviously the defendant, having been minded to take the course that he was minded to take and had taken, had kept as far as possible all signs of what he had done away from observation. The plaintiffs, I find, through Mr. Smith, the partner of the firm, who dealt with this matter, made it plain to the defendant that the matter was far from easy and a difficult one and it would involve his personal attention, and that he would have to do the main part of the work himself personally for a very good reason. Mr. Smith had to act as both an accountant and as an advocate in this matter, and an advocate with a reputation and with a responsibility, as he had to acquit himself so as to satisfy the Inland Revenue Authorities with arguments based on figures which were at once honest and to which he could commit his reputation. Mr. Smith also made it plain to the defendant that up to one stage the work would cost £300, and that he would require £150 on account. That £150 was paid. There was a balance of £150 when that work, which was the preparation of some twelve years' work was completed. But when that was done and the £300 was paid, there was further work which had to be done. The Inland Revenue Authorities were not satisfied. They required that the researches should go back still further. Thereupon, or soon after that, at a later stage another sum of £250 was paid, making £550 in all. It is £200 of that last £250 which the defendant is asking that he should recover back from the plaintiffs. When the work was completed so far as the Inland Revenue Authorities required it to be completed, and all was ready for final settlement except the willingness of the defendant to settle, the figures were put before Mr. Tingey, the defendant, and thereupon, according to the plaintiffs' case, that is to say in the month of June, 1925, some fifteen months after the first

employment of the plaintiffs, the balance due was agreed at the sum of £250. It is that £250 that the plaintiffs seek to recover. I have arrived at the conclusion upon the evidence that the sum of £250 was agreed, and that in one sense makes an end in this case. But it is due both to the counsel, who have submitted their contentions very clearly before me, and to the plaintiffs themselves that I should say a word about the question of whether those charges were reasonable or not, and it is fitting that I should say so because if the charges were too large it would render the likelihood of an agreement more improbable, and it would also be in a sense a reflection upon the plaintiffs. I have arrived at the conclusion that, having regard to all the facts of the case and the difficulties of the situation, the amount was about right. It is impossible in the circumstances of this case, having regard to the agreements and payments on account that have been made from time to time and the work that had to be done by Mr. Smith at home, to view very nicely and measure very exactly pound by pound the proper charges, and I have not purported to do so. I am satisfied, having heard all the evidence, that the amount was, as I have said, about right.

Now as to the conclusive matter in the case, namely, whether there was an agreement, I base my opinion and judgment on three grounds. The first is that, having heard the evidence of Mr. Smith and the defendant, Mr. Smith deposing to an agreement, I accept Mr. Smith's evidence, and where it is in conflict with the evidence of the defendant I do not accept the evidence of Mr. Tingey in reply. The second ground is that, broadly speaking, Mr. Tingey agrees about the essential matter with Mr. Smith, that is to say, he assented to the proposition that he did agree to pay the £250 now claimed, but he sets up the contention that he made it on suppositions or terms which have been proved to be either mistaken suppositions or terms which have not been fulfilled. He says, put in a brief and practical shape, that he was only to pay when he finally settled matters with the Inland Revenue Authorities, and that he was informed by Mr. Smith that he could settle for a comparatively small sum of £200 or £300, and that Mr. Smith supposed no question of penalties would arise or that all question of penalties would be waived. As to that there are several difficulties in the defendant's way. First, there is no such matter pleaded in confession and avoidance of the agreement which I have found was arrived at, and which Mr. Tingey has said was not. The second and more important ground is, I find that no such conditions were imposed, and that no such supposition could have been indulged in by Mr. Tingey, and Mr. Smith said nothing that could have encouraged the defendant in the belief that he could escape those penalties. The third ground on which I have come to the conclusion that an agreement was arrived at is this: that very shortly after this date, that is to say, in July, 1925, the plaintiffs rendered to Mr. Tingey an account of their services which brought out the figure at £840, and credited £550 as paid on account, leaving a balance of £290, but reducing it in a way which is very familiar to an agreed sum. "Say £250, as agreed." That account was received by Mr. Tingey, and I can find no trace of any dissent from the assertion that that £250 had been agreed. It is said that at all events, payment was not to be made until the matter with the Inland Revenue Authorities had been settled. It is said in substance that the plaintiffs repudiated their part of the bargain to secure a settlement by abandoning the work and giving up the employment. What happened about that was this: Mr. Tingey, thinking he could negotiate better with the Inland Revenue Authorities than Mr. Smith could, and disliking his advice in the matter to make an offer to the Inland Revenue Authorities, refused to follow his advice, and Mr. Smith, not unnaturally, did not go any further in the matter. As it turned out, Mr. Smith's advice was abundantly sound, because the accountant who took over the work from Mr. Smith, after investigation, advised him to settle for the precise sum which Mr. Smith had suggested he could settle for if he made an offer to the Inland Revenue Authorities. Under those circumstances it was not the plaintiffs who in any sense repudiated their bargain; it was Mr. Tingey, who, having put the matter into other hands, and having refused to take the advice of his then adviser, rendered that consummation through the plaintiffs impossible. Therefore, quite apart from any question of plea, I pronounce against those contentions raised on behalf of the defendant. That results in judgment for the plaintiffs for the sum of £250 on the claim.

Now with regard to the books. The plaintiffs claim a lien for their work done upon the books and papers, and the matter was dealt with by a sum being paid into Court, a very sensible arrangement. The case to which I was referred was the case of *Ex parte Southall, in re Hill*, reported in 12 Jurist, page 576. Although it is not a decision, but only an intimation of the opinion of Vice-Chancellor Knight Bruce, it is, I think, a very weighty opinion, and in principle it seems to me with regard to the papers and the books upon which the plaintiffs did work and on which they themselves made a considerable number of entries, their rights to a lien existed, and the counterclaim must be dismissed.

There will be a judgment for the plaintiffs for £250 on the claim and on the counterclaim with costs.

Mr. Vos: Would your Lordship be good enough to make an order for payment out of Court of the £250, and the £20 to be set off against costs?

Mr. Justice Roche: What is the £20?

Mr. Vos: £20 was paid into Court as well as £250 on on account of costs.

Sir Malcolm Macnaghten: It ought to be: money in Court to be paid out to the plaintiff in satisfaction of the judgment and on account of costs.

Mr. Justice Roche: Yes, that will do.

Sir Malcolm Macnaghten: If your Lordship pleases.

INLAND CASH ON DELIVERY SERVICE.

An Inland cash on delivery (C.O.D.) parcel service will be in operation on and after March 29th, 1926. Under this service, which will apply to everything transmissible by parcel post, the value of a parcel will, up to a maximum of £40, be collected from the addressee by the Post Office and remitted immediately to the sender by means of a special order. Parcels, ordinary or registered, may be posted C.O.D. at any money order post office. Parcels not exceeding £5 in value will be delivered at any address in Great Britain and Northern Ireland (including the Channel Islands and the Isle of Man) upon payment by the addressee to the postman of the amount to be collected; for those which exceed £5 in value the addressee will be required to pay the amount to be collected at the post office indicated upon an advice note which will be sent to him. The service does not apply to the Irish Free State in either direction.

The C.O.D. fees, which are additional to the ordinary parcel postage, vary according to the amount to be collected (trade charge) and are fixed on the following scale:—

Trade charge not exceeding—	Fee.
10s.	4d.
£1	6d.
£2	8d.
£5	10d.
£10	1s.

and 2d. for each additional £5 or fraction of £5 up to the maximum of £40.

The sender will be required to write on an adhesive address

label—supplied free on demand—or on the cover of the parcel:—

(1) The name and address of the addressee;
(2) His own name and address;
(3) The amount of the trade charge;

and to fill up the special trade charge form which will be handed to him.

The ordinary postage must be prepaid by means of a stamp or stamps affixed to the parcel (or address label). The C.O.D. fee must be prepaid by a postage stamp or stamps affixed to the counterfoil of the trade charge form.

A certificate of posting will be given if desired as in the case of an ordinary parcel.

The trade charge will be remitted to the sender of the parcel by means of a "crossed" order, similar to a money order. This order will not be negotiable and will normally be paid into the payee's banking account; but special arrangements will be made for payees who have no banking account to receive the money in cash from the Post Office, subject to proof of identity.

The Post Office accepts the same responsibility for a C.O.D. parcel as for an ordinary parcel, registered or unregistered as the case may be. For a trade charge order its responsibility is the same as for a money order.

Reviews.

Chartered and Incorporated Accountants' Charges. *Fourth Edition. By Francis W. Pixley, F.C.A., Barrister-at-Law. London: Gee & Co. (Publishers), Limited, 6, Kirby Street, E.C. (240 pp. Price 20s. net.)*

In compiling this book Mr. Pixley has supplied what is practically the only comprehensive treatise on the subject of professional accountants' charges. As regards the greater part of an accountant's work, no fixed scale of fees is prescribed as in the case of the legal profession, but, on the other hand, there are recognised charges applying both to principals and clerks. These are set out by Mr. Pixley under the various classes of work to which they apply, as, for instance, auditing, investigations, liquidations, trusteeships in bankruptcy and under deeds of arrangement, receiverships, &c., and in each case there is summarised the effect of the legal decisions bearing thereon. Specimens are also given of the form of rendering accounts of charges both in connection with Court matters and in relation to private clients. Since the issue of the third edition many Acts of Parliament have been passed, and Orders and Rules made under them bearing upon accountants' charges, all of which, along with the latest legal decisions, have been summarised in the text. The Appendix contains scales for working out charges at different rates per day of six, seven or eight hours. The book is very complete and indicates much care and research in collecting the necessary data and marshalling it in convenient form.

Rates and Rating, 1925. *Third Edition. By Albert Crew and W. T. Cresswell, Barristers-at-Law, and A. Hunnings, Rating Surveyor. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (434 pp. Price 10s. 6d. net.)*

Owing to the passing of the Rating and Valuation Act, 1925 (the text of which with notes thereon is given in full in Chapter 12), the present edition of this work constitutes what is practically a new book, the law relating to rating having undergone many fundamental changes. Mr. Crew has made a special study of this subject, and his book deals with rating in all its aspects, including rateable value, the rating of special classes of property and the principal statutes by which the subject is governed. The book contains also a short summary of the 1925 Act.

Some Diseases of our National Public Accountancy.

A Lecture delivered before the Incorporated Accountants' Students' Society of London by

The Right Hon. LORD OLIVIER, P.C., K.C.M.G., C.B.

The chair was occupied by Mr. G. S. Pitt, F.S.A.A., President of the Society of Incorporated Accountants and Auditors.

Lord Olivier said: The established Civil Servant, serene in his own consciousness of diligence, integrity and intelligence, is often perplexed to account for the disparaging opinions too frequently expressed about him by those who style themselves "Business Men," and by the vulgar imbecility of the conceptions which evening journals of the largest circulation habitually offer as presumably recognisable by their millions of readers in what purport to be typical portraits of Cuthbert, Dally and Dilly, and the more injurious effigies of Messrs. Drakes and Dux.

Lack of Business Training.

To criticise the working efficiency of public departments entirely from the point of view of commercial office standards would be unreasonable. Of the four in which I have myself served, the work of the Audit Office was, in regard to method in the disposal of business, the most efficient machine, but that was, no doubt, partly owing to the specific character of its work—very different from that of the Colonial Office, the Ministry of Agriculture or the India Office. It is now nearly ten years since I left the Board of Agriculture, and the methods of dealing with work in all public departments may by this time have improved out of all knowledge, and be as efficient as possible. In my time they were not, though they had improved since I entered the Colonial Office in 1882. I think the specific constitutional disease to which, after a reading of Dr. Arliss' "Diseases of Occupation," I assigned, many years ago, the name of "Potterers' Rot," or the even more pernicious affliction of "Bottlers' Palsy," which, according to Colonial Office tradition, was the cause of the first Ashanti war, were beyond doubt more endemic than they are now. But there were also persistent defects in efficiency and dispatch due to unwillingness to adopt official methods long established in the business world. For example, for years in the name of economy the Treasury fought austerely against every requisition for a mechanical typewriter, and still more resolutely against the use of dictation to shorthand, on the theory that the more facilities officials had for writing the more they would write, not apprehending that a capable principal clerk with a steno-typist could cut out a great deal of useless and ineffectual minuting and drafting by subordinates, with all the pottering, bottling, pigeon-holing and messengers' journeys involved in the old routines for dealing with papers. When I became the permanent head of the Board of Agriculture, after having been accustomed for years, out of England, to do my work in this way, the Treasury would not allow me a steno-typist. For years after London had telephones the Colonial Office had none: for years it was allowed only one—in a remote dark cupboard to which anyone had to be fetched for a message. I think it was Mr. Joseph Chamberlain, who first among Secretaries of State was powerful and resolute enough to extract from the Treasury a desk telephone for his own room or for that of his private secretary; long after the Crown Agents for

the Colonies on the ground floor, controlling their own funds, had inter-communicating telephones in every principal room. All this on the theory of economy at that time (I cannot say positively that it is the same to-day) imposed by the Treasury on the whole public service, that economy consists in avoiding any new form of cash outlay, and if possible in cutting down the old, rather than in improving methods of business and not sparing the mechanical or technical equipment necessary for so doing. Broadly speaking, the root of the diseases I have to examine is that the Treasury do not believe that proper accountancy pays, precisely as they did not believe, in the past, that the use of type writers, stenographers or telephones could possibly pay.

Rudimentary Character of Exchequer Book-keeping.

The Treasury theory of the usefulness of accounts is that they record what money is paid out by cashiers. An officer is told how much he may pay in a year on each of an immense number of items, according to the approved estimates. Simple addition of columns of abstracted cash entries will show when he has spent his allowance for any item, and he must then stop spending on it, unless his addition sum for another item shows that he has a saving on that, in which case the Treasury may allow him to spend that surplus in aid of the first item. And next year they will cut down his allowance for the second item, which proved too liberal. Accounts are useful as giving the figures on which to do this.

Fundamentally, because of the bed-rock principle of our Exchequer system, it is repugnant to Treasury doctrine to admit that accounts in connection with public service can have any wider use than this. But in reluctant concession to the insistence of Parliamentary zealots, there had been constructed before the war what the Treasury call "commercial accounts," for the costing of Naval construction, for the ordnance factories, for the telephones, and for parts of the Post Office work. Not for the Office of Works, or the Stationery Office, which might have been thought equally worthy of this grudgingly conceded attention.

None of these accounts form part of, or have any organic connection with the departmental Appropriation accounts founded on the Parliamentary votes, which are the accounting officers' official public confession. They are mere excrescences and appendices, interesting only to the departmental controllers, and to such Members of Parliament and of the public as may have a fancy to dig out and explore them.

During the war the Treasury, not having—or having reason to know if they had—in the public service more than half-a-dozen officials capable of directing any accountancy more elaborate than totting up and abstracting cash accounts, and having at first, with appalling results, attempted to apply their own simple minded notions, called in professional accountants to help them, and presently were driven to set up a number of new departmental commercial accounts.

I used to meet officially some of these professional men, and generally when I asked them about the instructions they received from the Treasury how to account for the values they handled, their countenances would assume a sort of "Good God! I should never have imagined it possible" expression, and usually, after trying to get the Treasury officials to understand their ideas, they took refuge in keeping one set of accounts for the Treasury and another one for themselves.

Transient Influence of War—Contact with Sound Accountancy.

But they left their impress. Treasury orthodoxy was appreciably for a time sicklied over with a faint cast of common business intelligence as to accountancy, and Sir John Bradbury, giving evidence in 1917 before Sir Herbert Samuel's Committee on Public Expenditure and Accounts, went so far as to say that it seemed to him "almost axiomatic" that when the Government is undertaking operations similar to those of a commercial firm a method of accounting which has been found satisfactory in those operations ought to be employed by the Government. That admission, and others made by him then, showed some advance in open-mindedness on the part of the Treasury. He was prepared to concede much more than the Treasury Officer of Accounts had been.

But the Treasury, even during the war, always made it rather a special exercise of Their Lordship's condescension to set up what they called a "commercial account" (which only meant an every-day set of double-entry accounts with a balance-sheet), and never did tie such accounts into their general accounting system. Whereas if the public accounts had already been—as they might perfectly well have been, and the Samuel Committee desired that they should be—kept on a normal and rational system, the new war accounts would from the outset have developed naturally on the same lines in proper connection with the Appropriation accounts, and no such Augean mess as the accounts of the Ministry of Munitions got into through complying with the express directions of the Treasury would ever have had to be dealt with, as it was at great cost and labour, and without retrieving considerable losses. Unfortunately Sir John Bradbury's successors have, beyond setting up cost accounts for the printing work only of the Stationery Office, entirely ignored in regard to other departments what he considered "axiomatic."

The root of much of that trouble, to put it shortly, is ignorance arising from the exclusion from the education of the able public school and university men, who are recruited into the Treasury to control the Nation's finances, of any elementary initiation into the principles of business office technique, or of the science and art of accountancy. Very few of the competitors, who take the highest places in the Civil Service examinations, know, or used to know, when they entered the service what "double entry" means, and what a balance-sheet is, or have more understanding of what the items in an account signify, than had the clergyman of a Riviera church of my acquaintance, who asked his churchwarden-treasurer, on going through the church accounts, "Who is this Doctor Balance who seems to get something paid to him at the end of every month?" And the work they have thereafter principally to do does not involve that they should acquire such understanding. That is left to the Accounts branches, and in the Treasury, when I was in the Service, it used to be left to an officer who, to distinguish him from the Treasury Officer of Accounts, who was a First Division man, generally of high academic distinctions, was called the "technical" Officer of accounts, and rose from the ranks of the old second division. Complete understanding of these sordid commercial mystifications was deputed to him.

Nothing that I may say in this paper about the Treasury refers to the finance work or the finance accounting of that department. I speak of the Treasury solely as controllers of expenditure and of their views as to how expenditure should be accounted for. They are administrators of a prescribed system, having its roots in very ancient constitutional history, and their axioms of book-keeping date from times anterior to any conception of accountancy more elaborate than that of keeping cash in counted bags and cutting notches on peeled hazel or willow wands to record how much the Exchequer clerks took out.

Lord Bradbury's Admissions and Explanations.

As Lord Bradbury, then Secretary to the Treasury, said to the Samuel Committee: "In criticising the existing scheme of appropriation of Parliamentary grants it must be borne in mind that the control of expenditure, in the sense of securing that the various public services are efficiently administered at a reasonable cost, was no part of the object which the framers of the system had in view. . . . In former days the control of expenditure in this sense was regarded as the business of the Crown or of the Executive Government, and Parliament was mainly concerned with limiting the amount of money to be placed at the Crown's disposal. When the Crown required money for any particular purpose, a grant was asked for from Parliament, and that grant, once obtained, could, in early days, be spent as the Crown saw fit, without regard even to the purpose for which it was asked for. The principle of appropriation was introduced because it was found that in practice the Crown asked for grants for one purpose—a purpose for which Parliament was willing to spend money—and applied them to purposes for which Parliament was less willing to provide.

"The object of the Appropriation Account is to secure that Parliament shall be satisfied that any grant, in so far as it is not expended for the purpose for which it was made, shall be surrendered to the Exchequer. Such an account is neither more nor less than an analytical account of what has actually been done with money issued from the Exchequer. It is necessarily framed on a 'cash' basis, since it deals solely and exclusively with the manner in which cash has been applied and works up to a surrenderable cash balance. The main duty of the auditor in regard to an ordinary 'expenditure' account is to satisfy himself that no charges which ought to have been included have been omitted. In regard to an Appropriation account, on the other hand, his main duty is to see that no charges which ought to be excluded have been admitted."

That is quite nicely put, and I need only add that it is the duty of the Auditor-General, under our present accounting system, to see that a good many charges which ought not to appear as expenditure are included in what we call accounts of expenditure, and that a good many charges which ought to appear in them are excluded.

Sir John Bradbury went on: "Whatever advantages, therefore, may be possessed by expenditure accounts on the proposed basis, they cannot be and cannot be made to serve the purposes of Appropriation accounts in the old sense." Against which, I regret to see, I wrote in the margin of the Blue Book at the time the word "*Nonsense,*" meaning, of course, no more than that I could not follow his argument. The Army accounts for the last six years, constructed on the proposed basis, do serve the purpose of Appropriation accounts, and Lord Bradbury therefore appeared to me at the time to exhibit some of the characteristic limitations of the Treasury mind, and not quite to understand what the reformers were driving at. And, indeed, at a later date, after further consideration he recorded the impressive conclusion that, "if the general introduction of accounts of expenditure of public departments on the lines proposed is thought desirable, it will be possible, without loss of any material features to simplify the cash appropriation account to such an extent as to allow the new system to be introduced without duplicating of accounting labour."

The opponents of the reform proposed, in the War Office and in the Treasury, have taken good care that that should not be done, and having quite unnecessarily maintained the old cash accounting system in its entirety concurrently with the new Army accounts, now triumphantly point to the extravagance of the double expenditure as an excuse for scrapping the latter.

And he said further, after looking at the proposed new form of Army accounts, "I do not understand anything except the broad general principles about book-keeping, but it seems to me that the simple reconciliation statement at the end of this account sufficiently brings the cash account into relation with this expenditure account.

"My conclusion is that, while it is important to retain the appropriation account on a cash basis as at present, it will be possible, if the general introduction of accounts of expenditure of public departments on the lines proposed is thought desirable, without loss of any really material feature to simplify the cash appropriation account to such an extent as to allow the new system to be introduced without duplication of accounting labour."

The Treasury's Trained Accountant Condemns the Treasury System.

The (academic) Treasury Officer of Accounts was not in favour of the proposed changes, but his own "technical" officer, knowing a good deal more about accountancy and its purposes, spoke as follows:—"So long as Parliament continues to vote money in the terms of timber, hemp and paint, it cannot expect to have accounts in terms of new construction and maintenance of battleships, cruisers, submarines and the like. . . . I am personally convinced that income and expenditure accounts, as opposed to cash receipts and payments accounts, would give a greatly increased control over the national expenditure, both in Parliament and still more to the Treasury, and even more to the departments themselves, and in my ideal republic I shall certainly have the national accounts on an income and expenditure basis. *It would be quite idle to minimise the opposition which a drastic change of this character would be likely to provoke, opposition both of honest doubt, and also of what I might call simple vis inertiæ.*

"We have already departed very largely from the basis of accounts which was in the minds of the framers of the Exchequer and Audit Department Act. It was simply a form of cash account which I believe they intended, and we have now an account which is, to a degree which I am sure this Committee would hardly realise, a cross-breed between an income and expenditure account and a pure cash receipts and payments account, and we have accumulated in the last fifty years a mass of case law of an exceedingly technical character. If we can simply strip the appropriation account of a great deal of these complications we shall be able to liberate a considerable amount of staff in the aggregate in the public service so that the experimental introduction of this income and expenditure account would not be entirely a super-addition of further work on the public departments."

War Office Finance Branch Witnesses Gibbet Unsoundness.

Sir Charles Harris, for many years the Chief Financial Officer of the War Office, stated as follows:—

In time of peace the system of control by appropriation fails at three points—

(1) If the orders on the subject were rigidly obeyed, administration would be hampered intolerably.

(2) The system leads to the presentation of the estimates to Parliament in a non-significant form, giving no adequate information to the House of what it is really being asked to approve.

(3) It fails to provide any "live" control of expenditure. because the compartments or heads of appropriation generally do not represent purposes or *objects* of expenditure, unconnected with purpose and admitting of only formal control.

Sir S. Dannreuther gave examples of how the present system works:—Q. "You can build a house, I understand, without disclosing the cost?" A. "Yes. If they happen to have in store the articles that are necessary. Often they are accumulated for different purposes, and they are not carried at any money value. You might find in the engineers' stores a lot of things accumulated for demolitions. There might be a couple of baths, and you could put in a new bathroom at a house at a cost of £10, when it has really cost £50. It does not appear as cash, and only cash appears in the account. I remember stables at Aldershot years ago where the actual cost was small, but I do not think the cost that appeared was the true cost. There was a great deal of stuff available from demolition. If stores were carried at a book value they would have to be debited. You would have all these stores as a cash asset, and would write off what was used during the year."

Assistant Comptroller and Auditor Exposes Inherent Defects.

I myself, being at that time Assistant Comptroller, Auditor, put the following observations before the Committee in the course of a memorandum.

1.—The methods in which the public accounts of certain classes of transactions are kept or presented to Parliament tend in some respects to weaken the control of public expenditure, whether such control is to be exercised by the accounting officer of a Department, by the Treasury, or by Parliament, and indeed to withdraw from those authorities, in progressive degrees, cognisance of the manner in which public assets, whether they consist of credits for cash or of property held for purposes of service but not yet issued, are being disposed of.

2.—They do not automatically bring to notice, by means of balance-sheets, imperfections of book-keeping; they do not keep prominently before accounting officers their responsibility in regard to recoverable advances of money or the realisation of values temporarily invested in stores and materials; they do not enable the interest of the State in these values to be continuously tracked and kept in touch with in the accounts.

3.—The cardinal factors of weakness in the prevailing system are:—

(1) The charging of disbursements in the recovery of which the State retains an interest directly against service sub-heads of votes.

(2) The prevalent system of controlling and accounting for stores and materials in measure and quantity only, and not consistently and continuously in terms of value, so that they may not be moved or disposed of without the original debit and all succeeding costs in respect of them being followed up and accounted for.

4.—Before the war, departments, the character of whose business required that they should make disbursements in either of these two classes, followed various special systems in regard to them, the operations of which did not emerge in their direct accounting to Parliament through their vote accounts, and consequently did not yield component elements to a balanced statement as they would have done in any body of accounts other than the public accounts. Within their own confines they were in some cases excellent, in others less satisfactory.

5.—The developments of the war have in all the principal spending departments affected, and in the new Ministries of Munitions, Air Service, &c., severely strained or burst the framework of these pre-war systems, and the accounting has run loose, uncontrolled by the normal rules applicable to business transactions, with the result in many directions of grave risks to or actual losses of public property, whilst strict control has been rendered practically impossible.

8.—The principles in force have not yet been brought into complete correspondence with the principles of ordinary accountancy, understanding by that phrase the methods of accounting devised in the technique of business to enable expenditure, and the responsibility for expenditure, to be tracked and controlled, and understanding by the word "expenditure" the alienation of values of property, whether that property be in the form of cash or credits, or of stores, materials, supplies or munitions, of which account has still to be kept on behalf of the owner.

9.—The danger to control lies in the fact that an officer accountable and answerable for public values is given a discharge in his vote account for a value the cash-form of which he has in fact disbursed under proper authority, but for the value-form of which he is in fact still accountable, and ought to be shown as so being in his public accounts.

11.—Under what is referred to in the Treasury Letter of June 10th, 1916, as the "narratival" (!) treatment of vote accounts, all advances and loans are treated by a credit to the Paymaster-General (a real creditor), and a debit to one of the service sub-heads of a vote.

12.—This treatment is prescribed in accordance with the very well-founded repugnance maintained by the Treasury to the opening of suspense accounts, but it would appear that the principle of this repugnance is not in such cases carried so far as might be desirable in the direction of prohibiting fictitious book-keeping.

Fictitious Entries to Plug Leaks.

13.—When a payment is made for a final service it is properly debited finally against the vote, for the vote is passed for the service, and the service has been completed at the cost of the issue debited.

14.—But in the case of most of the classes of advances in question the service has not been performed and the vote is made use of as a fictitious debtor, whilst there actually exists a real debtor, namely, the recipient of the advance, and it is that debtor, or an account comprehending all such debtors, that ought in proper accountancy to be directly debited.

15.—The accounting officer, however, in his account presented to Parliament, does not show any debits against such debtors, but a gross debit against a service vote as for services, which may not and often have not been completed, and on account of which he has not in such cases really established his title to take credit against that vote. (Many cases, in fact, arise in which this is recognised, and the debit sub-head re-credited, and another debited.)

16.—In recognition of the fact that such advances are recoverable, it has been necessary to have recourse to the expedient of prescribing that in such cases (of advances) the debit against the vote shall entail not one credit, but two credits: one to the Paymaster-General, and another to an account entitled "Advances Recoverable," or some similar designation, the latter entry being balanced by a further debit against a "Private Individual"—the person advanced to. The balance of the "Advances Recoverable" account, after

it has been debited with all amounts repaid by private individuals, or written off by proper authority as irrecoverable, shows, or should show, the total remainder of such advances outstanding. (It is, of course, repugnant to sound accountancy that irrecoverable advances written off should be treated, in the main account, on the same footing as advances which have been repaid, but this is the effect of the present system.)

17.—The outstanding total is an amount for which the accounting officer is in fact held accountable by the Treasury, but he is not shown as accountable for it in his vote accounts as presented to Parliament for control, and if there has been, as there has in some cases been, a failure to make the second posting of credit in the subsidiary account, no one except the contractor profiting thereby need be any the wiser, because the deficiency is not made sensible by the disturbance of any balance-sheet. Such an omission may be discovered by a scrutiny or by accident, but will not automatically disclose itself.

18.—Where subsidiary accounts having no organic connection with the accounting officer's cardinal accountability are kept, there is, obviously, not only a possibility but a probability that omissions of posting will occur.

19.—If such advances had to be debited, not to a vote for service but directly to an account of "Advances Recoverable," and the balances in this account were part of the accounting officer's accountability as shown in his annual account for Parliament, then (1) no failure to debit against the real debtors could occur without detection, and (2) the responsibility of the accounting officer for keeping in touch with and retrieving with due promptitude all these advances would be kept more in his view than it may be at present when these outstandings are submerged under a final charge to a vote and are not exposed for Parliamentary inquiry and criticism in the account.

20.—In order that the safeguards which sound accounting gives should not be dispensed with, it would be proper that no advance which is not of the nature of final expenditure or of an unreclaimable payment on account of goods supplied (which is not, strictly speaking, an advance, although it is commonly so described) should be allowed to be charged against a sub-head of vote for service.

No Proper Accounting for Stores.

22.—The second category in which the established system of accounting obscures and weakens the control of public expenditure (understanding that term as I have applied it above) is that of store accounting.

23.—There is no consistency of system in the public store accounting.

27.—But there is one essential weakness of principle which runs (with limited exceptions, as in the case of the ordnance factories) through the whole system of store accounts, namely, that from the time at which the purchase price of stores is debited either to a service sub-head or to a stores token sub-head, stores cease to be regarded as the equivalent of a money asset for which the accounting officer is accountable in terms of the cash with which he has parted in respect of them. The prevailing principle has been to control and account for them simply as stocks and quantities of material.

Fallacious Apologies.

No one would deny that accounts are necessary for the purposes of public administration, but many people, some even in high positions of financial responsibility in the public service, habitually meet any suggestion that the public accounts might be improved by propounding that the purposes for which State Departments exist are not economic or commercial, and that therefore accountancy, which has grown up for the purposes of the economic, commercial, industrial and financial spheres of human activity has no suitable application to them. You will find this argument again and again before Committees of Parliament and in letters to the Press by opponents of any attempt to introduce businesslike methods into public service accounting. The purpose of the Army is to train men to fight; therefore, it is argued, it is not worth while to bother administrative commanding officers with analyses of what their units are costing or let them see how much they can do for their money. The purpose of the Education Office is to educate; therefore, since the education accounts, both national and local, are so chaotic, especially the former, which are kept on Appropriation principles, that the department cannot frame reliable estimates for percentage grants for local authorities, then, rather than keep proper accounts, scrap that sound principle and revert to the blind method of arbitrary block grants to local authorities which you can add up like a pile of bricks, and audit for the Appropriation account in half-an-hour, without bothering as to what you get for the money.

Now it is the fact that for a good many departments the present method and system of our accounts is practically sufficient for purposes of economy; that is to say, for seeing that you are getting the best you can for your money. Where the departments' expenses are wholly for salaries, buildings and office expenses, the control is already at a level of efficiency which could not probably be enhanced by any alteration of their account system. The cash expenditure demanded for such departments during the year so closely approximates to the true expenditure that a change to a proper system would not show much difference in the annual appropriations. And precisely in regard to such departments there would be practically no trouble or expense involved in making the change. All that is necessary is to incorporate in the votes for the department the cost of the services rendered to them by other departments, properly costed. This is already done so far as the existing accounts allow, by notes added to the estimate for each department concerned, and to the appropriation account. This small improvement has been ceded by the Treasury in compliance with the recommendations of the Samuel Committee.

It would be an advantage to have the total cost of all departments shown, but we should not require comparisons of unit costs to be carried out in a large number of the civil departments. The department itself is a unit.

The Value of True Accountancy.

The science and art of accountancy is one of the most interesting and fascinating of the products of human intelligence. The invention of double-entry book-keeping, of which it is the superstructure, is an achievement of genius, one of the most inspired discoveries ever adopted in the technique of the satisfaction of human needs. It is the regulator and the critique of all productive activity in a developed commercial, industrial and financial society. Sound accountancy in any business whatever is stimulating because it is significant and suggestive. Our public accounts to-day are not significant. So far from being stimulative they are repulsive. The only thing they suggest is incompetence and slackness of grip. The first thing that needs to be done is to put them on that basis of reality, and the second is to make the Auditor-General responsible for enforcing proper accountancy on that basis.

The constitutional ailments of our national public accountancy which I am examining cannot be remedied suddenly. To substitute a healthy and constitutionally vigorous organism, the foundations must first be laid by adopting sound principles of reality as the basis of our Parliamentary accounts. These were laid down by Sir Herbert Samuels' Committee in 1918, and their substance is as follows:—

Remedies Demanded by Parliamentary Experts.

The Estimates which form the basis of the public accounts should be, not as at present estimates of cash receipts and disbursements within the financial year, but estimates of true income and expenditure as nearly as the best available judgment of skilled accountancy can interpret those terms. I say "the best available judgment" because, in some exceptional and not in regard to the public finance very important cases, there may be the same difficulty of deciding exactly what is income or expenditure and what is not, as sometimes occurs in commercial or industrial finance, giving rise to those law suits on income tax cases and questions of fiduciary administration which travel up our whole series of Courts, each in turn often reversing the judgment of the Court below.

The expenditure should be classified in these estimates and accounts as far as possible according to the purposes or services for which it is intended to provide, as it has been in the reformed scheme of Army Estimates adopted in 1919, and followed since then until it was destroyed this year by the War Office, and not as heretofore in all other departments according to the grades of salaries to be paid and the things to be purchased.

Estimates should concurrently be made and presented of the net amount of cash which will be required in the year to provide for the service of each department. These estimates of cash will coincide with and replace the estimates for which votes are now passed by Parliament.

Throttled by the Treasury.

How this can be done—and it is easily feasible—has been shown in the Army Estimates and accounts for the last six years, and how it can be done for other departments was shown by a Report made by the Treasury six years ago, by a Committee presided over by Sir Albert Wyon, which has remained in the Treasury pigeon-holes ever since.

At present when a project involving expenditure is proposed by the Government it is approved by Parliament as a preliminary by a financial resolution, and the cash required to be raised by taxation for it in each year, which is sometimes only a balance between expenditure and receipts (the latter being called Appropriations in Aid) is voted and incorporated in the Appropriation Law. Only these balances of cash disbursements are spoken of in Parliamentary language as expenditure, and these only in the essential intention of our financial system when it was reformed 60 years ago are regarded as capable of causing excesses on Parliamentary votes. As Sir S. Dannreuther said: Any Service Department having a vote for stores and also an accumulation of stores accrued from previous years, can increase its real expenditure in the year by using up those stores in addition to any purchased out of the vote for the year, without showing Parliament any increase of expenditure over what it had approved for the year. That is how the War Office was able to hand over many millions of our Army stores to General Koltchak after the armistice, without a trace. What was handed over to General Denikin after the new Army accounts were set up in April, 1919, was disclosed by the operation of those accounts, which incidentally showed that the cost of what he handed over was £65,000,000, whereas in reply to a Parliamentary question it had been stated that the value was about £18,000,000.

I suggest that instead of Parliament sanctioning general projects of expenditure by financial resolution and precise cash disbursements for each year by vote, the full estimated expenditure of each year, on a basis of proper accountancy, should be sanctioned by vote on the Estimates and set out in the appropriation accounts after audit by the Auditor-General, thus bringing them under the same strict control as the cash disbursements now are, and that the net cash disbursements, as estimated for Budget purposes, should be approved by resolution and controlled just as strictly as they are now. This is necessary for financial convenience, and I would not do anything to weaken the *régime* which the Treasury have elaborated for getting this cash expenditure which governs taxation handled as tightly and closely as possible, and all liabilities discharged as promptly as possible; but cash accounts should take their proper place among the finance accounts as accounts of working capital, and not be pretended to be accounts of expenditure or of income, and the accounts of each department and of the whole national Budget should be worked to balance-sheets.

Superfluous and Restricted Functions of Auditor-General.

The Comptroller and Auditor-General, as Comptroller, now controls the allowances of credits to the departments so that they may not outrun the totals quoted by Parliament. His functions in this respect are an antiquated and quite useless survival—the whole business is pedantic and absurd, a waste of time and paper. This responsibility should be left to the Treasury, who prepare the requisitions for credit and warrants, and the Auditor's, only duty would be to pounce on them if they abuse it, which they are not in the least likely to do, or desire to do.

He is also the officer of Parliament responsible for enforcing the accurate keeping of the accounts prescribed by the Treasury, as well as for what is now ostensibly his principal duty, but actually is largely, and can be more largely, delegated to the departmental audit, the honest handling of cash.

What the Auditor-General should be and do.

When in 1920 I resigned the office of Assistant-Comptroller and Auditor, after lodging with the Public Accounts Committee a reasoned protest against the uselessness and superfluity of that office under the existing conditions, it was immediately filled by the appointment of a Treasury Officer of the highest possible orthodoxy in the established Treasury traditions, which my colleague, Sir Henry Gibson, and some others in the public service, as well as in Parliament, had been strenuously and continuously during the war endeavouring to get enlarged, in the interests of proper accounting for values represented by public disbursement and commitment. On Sir Henry Gibson's retirement another Treasury Officer, well known as probably the most able living representative and exponent of those same traditions, was appointed to succeed him. The Auditor-General ought, in my opinion, to be either a professional accountant and auditor of the highest possible standing, selected by a Committee of Parliament, and not, as at present, by the First Lord of the Treasury and the Chancellor of the Exchequer in consultation with their departmental advisers, or at any rate a man whose habit of mind, technical instincts and sensibilities, and qualifications by training for dealing with accountancy and audit, are such as would be possessed and acted on by an accountant and auditor in the highest rank of those professions. Sir Henry

Gibson, in my judgment, possibly partial, fully possessed those qualifications. His successor, notwithstanding his Treasury nurture, is, I am sure, fully capable of displaying them if only it were his duty to do so, which it is not. The statutory and constitutional functions of the Auditor-General are narrowly limited. His office is a tolerated imposition inflicted by Parliament on the jealous autonomy of the Exchequer, that has scarcely as yet taken root effectually in our financial system. It will probably surprise some of you to know that he has no authority over the form in which any accounts shall be kept. That rests with the Treasury, because, as Sir John Bradbury said, the control of expenditure is historically regarded as the business of the Crown, just as your income tax is always levied by persons who take care to let you know on their stationery that they are His Majesty's Inspectors of Taxes, and that it is the Crown that goes to law with you to recover them. The Auditor-General can only, when the spirit so moves him or he happens to be consulted by the Treasury, approach that department with private or semi-official suggestions with regard to forms of account. He has only, by a tentative and gradual encroachment—as both Sir Henry Gibson and Sir Malcolm Ramsay have frequently told the Public Accounts Committee—established, with the aid and abetment of that Committee, a partial licence of raising questions in his reports as to the substance or economy of details of financial administration, overreaching beyond his original purely mechanical duty of mere fidelity audit and simple verification of Parliamentary sanction for Exchequer disbursements.

LIMITATIONS OF AUDITOR PREVENT SCOPE.

It is therefore not surprising that the Auditor-General, in his report for 1923-24, on the subject of the cost accounts for military hospitals, should have said that he had found their results of little use for the purposes of his audit. Unquestionably, for the primary constitutional purpose of that audit, the old, unsignificant system of cash accounts, divided into groups of claimants payable, and not abstracted into costs of services, is all that is of any direct use. It was for audit of accounts of expenditure, so schemed and voted, that the Audit Office was instituted, and, as I have said, such accounts have actually been maintained side by side with the new system of Army accounts, and it has continued to audit them and found them very convenient. But, in his evidence of December 15th, Sir Malcolm Ramsay says, as I should have expected him to say, "If this system were pushed to its logical development as contemplated by Sir Herbert Lawrence (and he might have said throughout the Public Service) I do not think that my cash audit, to which I attach the greatest importance, would suffer, provided satisfactory arrangements could be made for showing a cash column," (which as I have said is a simple matter) "and enabling me to deal with the bulk purchases for cash without digging them out of a number of separate unit accounts—I mean the very large expenditure which goes on stores and so forth. Now, I think, that could be done." Of course it can. It is agreeable to find that Sir Malcolm Ramsay is even bolder than Sir John Bradbury eight years ago in doubting the substance of that large lion which the Treasury (academic) Officer of accounts descried in the path in 1918—the assumption that the cash accounts would cease to exist and appropriation audit become impossible.

He goes on: "So far, then, I am no worse off under the new system, indeed I am rather better. I have opportunities I did not have before, and I think I can go a little further and raise some points which possibly I could not have raised under the old system." But conversely, the best imaginable system of cost accounts would not serve as a means for enabling the Auditor-General infallibly to censure extravagance, which he observes is hardly his business, or to do more than suggest to the Public Accounts Committee possible openings for discussion with the accounting officers. Their purpose is to enable responsible administrators to control, and having satisfied themselves, or failed to do so, to satisfy or confess failure to the Public Accounts Committee. If Sir Malcolm Ramsay had been writing as an administrator who had experience of responsibility for the control of a number of hospitals, I have not the slightest doubt that he would have said that he had found those costs accounts very useful in the discharge of his duties, not only notwithstanding, but even by reason of, the diversity in conditions which he was informed accounted for certain variations of cost between different hospitals.

SIR MALCOLM RAMSAY SUPPORTS COST ACCOUNTING.

I say this quite assuredly, because, although in his earlier evidence Sir Malcolm Ramsay rather charged against the hospital cost accounts on the score of their not being useful, it appears that after he had given that evidence he dug a little deeper into realities. For this is what he said—he went out of his way to say it—on December 15th "There is one other point on another matter I should like to add: I hope very much, if I might suggest it to the Committee, that whatever else is done the costing of the hospitals may go on. . . . *My people have been to the London Hospital and we have had their principles explained to us.*" Comparison, he says, between Army hospitals and other hospitals is not valid—"but for internal use, for comparing one Army hospital with another, costing seems to me of value and I hope the Committee and the Treasury will press that that should be continued." That goes a good deal nearer the root of the matter than did his earlier evidence. At the back of the whole controversy which has raged about Army accounting, and at the back of the whole controversy about the general accounting for the public service, lies the truth which the Treasury and the public service under their tutorship, blindfolded by unreal and ignorant ideas of accountancy, and cramped by the reactions of an artificial system, do not sufficiently realise, namely, that the purpose of accounts in connection with any human activity is not merely to safeguard the till, but to afford an optical instrument for the discovery of realities. Army reformers of the school of Sir Herbert Lawrence have been urging for years that commanding officers should be given accounts which would enable them to see what they are doing, and encouraged to use them. The present phase of War Office opinion, like the permanent cast of Treasury doctrine, is that economy, that is to say the best use of power, can only be secured by regulations of the War Office, approved by the Treasury, and that unless the Royal Warrant, prescribing how many beans are to go to a sergeant's ration, is submitted to and approved by the Treasury, the Treasury is not discharging its functions of controlling expenditure. Public officials said as much in their latest evidence before the Public Accounts Committee. Whereas Sir Herbert Lawrence said most emphatically that such pedantry was ineffectual and extravagant.

Now if everything that has been spent on the Army can be scheduled like the beans for a sergeant's mess and the price to be paid for them under contract, it is evident that cost accounting cannot be used very effectually to save expenditure. You know how many sergeants you have, and how many beans they will want, and how much they will cost; you provide for that amount on your estimates, and at the end of the year you will find the expenditure will be the number of beans multiplied by the number of sergeants who have partaken, multiplied by the contract price of the ration.

Sir H. Lawrence's Unqualified Condemnation of Treasury and War Office Arguments.

Commentary is hardly needful, but I will give you Sir Herbert Lawrence's commentary. Mr. Gillett: "One argument put in the House of Lords was that even if they did decentralise, owing to the fact that so large an amount of the expenditure would be fixed by regulation, there would be no incentive to officers to economise in any way. Is that your opinion or not?" Sir Herbert Lawrence: "It is certainly not my opinion. I think you can demonstrate perfectly clearly that some 90 per cent. of the expenditure which goes through a commanding officer's hands is fixed, in the sense that it is pay or clothing or rations; *but all those things are fixed at their maxima*: it is true that as regards clothing, where there is a saving the soldier benefits by it, the State would not. *In every sphere of activity there is a possibility of saving, and what I regard as more important still is the question of efficiency.* When you go to war, all rule by regulation disappears absolutely; you begin to spend money like water, and if you have got a body of men who are totally unacquainted with money value of the things with which they are dealing you are asking for trouble, and asking for great expense.

A Modern Nation's Accounts should be brought up to Modern Standards.

The general position as it strikes me is this: The national accounts, chiefly for historical reasons, and because of the reluctance of the Exchequer to sacrifice the survivals of the traditional rights of the Crown, are quite unsuitable for the purposes of modern financial transactions. The analysis and justification of this view will be found exhaustively proved in the report of Sir Herbert Samuel's Committee, and have been re-iterated again and again in the proceedings before the Public Accounts Committee. The reasons why the system is not reformed to bring it into line with what would appear to any man of business outside the Treasury an obvious duty are, to put it bluntly, incompetence, cowardice and laziness. Put courteously, deficiency in appreciation of the reasons for, and the significance of, the canons of modern accountancy; hesitation to face the inertia of the whole established Civil Service, which has been fossilised by prolonged Treasury discipline into its present habits; and thirdly, disinclination to face the actual labour involved. In my view it is childish for the administration of a great nation to cling to a childish system for such inadequate reasons. I think the business world should appreciate, not only that the present system is inefficient and uneconomical, but that it is discreditable to a great commercial nation that its accounts should be kept in a manner which would be censured by any commercial court. Just now there is a Bill in Parliament to impose penalties on bankrupts who have failed to keep proper accounts. The Government does not keep proper accounts. To remedy that defect and to re-organise them is simply a matter of a few years' work and education directed by a capable small committee, and the Public Service has, since the war, a greatly increased number of thoroughly competent officers of accounts, who could be employed as the agents and missionaries of the reform.

ENGLISH SPEAKING ACCOUNTANTS IN PARIS.

The quarterly luncheon and meeting of the English speaking accountants in Paris was held at the Restaurant le Cardinal on March 17th. Mr. E. d'Errico (Edward Moore & Sons) presided, and a short discussion took place on fiscal matters. Mr. E. d'Errico and Mr. Charles H. Evans (Price, Waterhouse & Co.) were elected to fill two vacancies on the Committee for the ensuing year, and Mr. Oscar Fawcett (Cole, Dickin, Fawcett & Co.) was re-elected Secretary.

Society of Incorporated Accountants and Auditors.

(Scottish Branch.)

Annual Report.

The Council have pleasure in presenting the 46th annual report of the Scottish Institute of Accountants (the Scottish Branch of the Society) for the year ended December 31st, 1925.

The Council regret to have to record since the last meeting the deaths of the following members:—Mr. Whaley H. Young (Stirling), Mr. Archibald Sliman and Mr. George McCulloch (Glasgow), and Mr. Patrick Robertson (Blairgowrie).

The Council have also to report with regret the resignation of two members of Council, Mr. William Cumine MacBean (Peterhead) and Mr. Arthur Batty (Glasgow). Mr. MacBean was one of the oldest members of the Scottish Institute and did splendid work for the Institute and Society in the north of Scotland. His place on the Council was filled by the appointment of Mr. Andrew Scott Finnie (Aberdeen), a former member. Mr. Arthur Batty's place was filled by the appointment of Mr. Edward Hall Wight (Glasgow). The members will be asked to confirm these appointments.

The Council are pleased to be able again to report a gratifying increase in the number of clerks indentured under articles to Scottish members, and also in the number of candidates applying for admission to the examinations under the special bye-laws of the Society.

Several transfers of the articles of apprentices from country members to city members have taken place, and this is an arrangement which the Council desire should be extended in order that country apprentices may have the advantage of attending classes and lectures in Glasgow and Edinburgh. The Secretary will be glad to hear of vacancies in Glasgow or neighbourhood for such apprentices.

The membership of the Branch shows a small increase. In this connection it has to be kept in mind that only members practising or resident in Scotland are included as members of the Scottish Branch and no account is taken of Scottish members furth of Scotland.

The revision of the bye-laws of the Scottish Institute of Accountants, referred to in last year's report, has been completed and the recommendations of the Council have been unanimously adopted and confirmed by the members. The revised Constitution and Bye-laws await the formal approval of the Council of the Society as required by sect. 18. All the members have received proof copies of the bye-laws which have been adopted without alteration.

The Students' Society was reconstituted during the year. The Secretary of the Branch (Mr. James Paterson), who had acted as Honorary Secretary since the formation of the Students' Society eighteen years ago, having desired to be relieved of the position, Mr. Robert Fraser, Incorporated Accountant, Glasgow, was appointed by the Committee of the Students' Society Honorary Secretary, with Mr. J. Tannett Mackenzie, Incorporated Accountant, Glasgow, as chairman. A number of successful lectures have been held.

The Council have pleasure to report that during the last year the Scottish Branch was favoured with visits from two of the members of the London Council. On January 26th, 1925, the late Mr. J. Manger Fells, C.B.E., London, visited Edinburgh and was entertained to luncheon, and on June 26th, 1925, Mr. Thomas Keens, Vice-President of the Society, visited Glasgow and had a conference with the Scottish Council on matters pertaining to the Society's interests in Scotland. He was also entertained to luncheon, when he addressed the members present. These visits were much appreciated.

The 40th anniversary of the foundation of the Society was held in London on October 27th, and was attended by Mr. J. Stewart Seggie (Edinburgh), Mr. E. Mortimer Brodie (Port Glasgow) and Mr. James Paterson, Secretary of the Scottish Branch.

Mr. D. Hill Jack, who was one of the representatives of the Scottish Institute of Accountants on the London Council for the past 25 years, having found it inconvenient to attend the meetings in London, placed his resignation as a London representative in the hands of the Council, who accepted it with regret and recorded their appreciation of Mr. Hill Jack's services on the London Council during that period. The

Council appointed Mr. J. Stewart Seggie to fill the vacancy, and the members will be asked to confirm same.

The Society is represented on the membership of the Glasgow Chamber of Commerce by Mr. Robert T. Dunlop and Mr. John A. Gough (Glasgow).

Members of Council who retire by rotation at this time are: Mr. A. Scott Finnie (Aberdeen) (co-opted in room of Mr. W. C. MacBean), Mr. W. L. Pattullo (Dundee), Mr. John Meikle (Glasgow) and Mr. J. Cradock Walker (Glasgow), all of whom are eligible for re-election. The members will also be asked to confirm the co-option of Mr. Edward Hall Wight in room of Mr. Arthur Batty.

The Honorary Auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser, also retire and are eligible for re-election.

Scottish Notes.

Meeting of Scottish Council.

A meeting of the Scottish Council was held in Glasgow on 19th ult. In the absence of the President (Mr. D. Hill Jack), Mr. Robert Young (Elgin), the senior Vice-President, occupied the chair. There were present: Mr. A. Scott Finnie (Aberdeen); Mr. James T. Morrison (Coatbridge); Mr. Wm. Robertson and Mr. J. Stewart Seggie (Edinburgh); Dr. John Bell, Mr. R. T. Dunlop, Mr. John A. Gough, Mr. W. Davidson Hall, Mr. Wm. Houston, Mr. J. Cradock Walker, Mr. E. Hall Wight (Glasgow); Mr. W. J. Wood (Perth); and Mr. James Paterson, Secretary. Apologies for absence were intimated from Mr. D. Hill Jack (Glasgow), Mr. Walter MacGregor (Edinburgh) and Mr. P. G. S. Ritchie (Glasgow). The Council learned of the sudden death of their colleague, Mr. John Meikle (Glasgow), and placed on record their deep regret at the sad occurrence, and their sincere sympathy with his widow and family. A variety of business connected with the work of the Society in Scotland was transacted and variously dealt with.

Meeting of Scottish Branch.

The 46th annual meeting of the Scottish Institute of Accountants (the Scottish Branch of the Society) was held in Glasgow on the 19th ult. There were present Mr. A. Scott Finnie (Aberdeen), Mr. Jas. T. Morrison (Coatbridge), Mr. Robert Young (Elgin), Mr. Wm. Robertson, F.F.A., Mr. J. Stewart Seggie, C.A., Mr. D. R. Matheson, M.A., LL.B. (Edinburgh), Mr. Festus Moffatt (Falkirk), Dr. John Bell, Mr. Robert T. Dunlop, Mr. James Simpson Fraser, Mr. Robert Fraser, Mr. John A. Gough, Mr. W. Davidson Hall, Mr. W. Houston, Mr. W. Hill Jack, Mr. J. Tannett Mackenzie, Mr. J. Cradock Walker, Mr. E. Hall Wight, Mr. A. B. Marshall, Mr. P. Clarkson Ritchie (Glasgow), Mr. W. J. Wood (Perth), Mr. E. Mortimer Brodie (Port Glasgow), and Mr. James Paterson, Secretary. In the absence of the President (Mr. D. Hill Jack), Mr. Robert Young, Senior Vice-President, occupied the chair. Before moving the adoption of the Council's report, the Chairman said that Mr. Hill Jack had intended being present, but at the last moment was prevented. Since the report was issued the Council had lost a colleague by the sudden death of Mr. John Meikle, F.S.A.A. (Glasgow), one of the oldest members of the Scottish Institute, and a faithful, if unobstrusive, supporter of the Society in Scotland. The report merely gathered together into a general view some of the work done in Scotland, the major portion of which necessarily fell on the Secretary. It showed that the Society was making progress especially amongst the younger members of the profession and the high standard aimed at by the Society kept well apace of modern requirements in accountancy. He moved the adoption of the report and accounts. This was seconded by Mr. Wm. Robertson, and after remarks by various members, was unanimously agreed to. The retiring members of the Council, Mr. A. Scott Finnie (Aberdeen), Mr. W. L. Pattullo (Dundee), Mr. J. Cradock Walker and Mr. E. Hall Wight (Glasgow), were unanimously re-elected, as were also the retiring honorary auditors, Mr. D. M. A. Brunton and Mr. Robert Fraser (Glasgow). The appointment of Mr. J. Stewart Seggie as a representative of the Scottish Institute on the London Council along with the Secretary was also unanimously confirmed.

Glasgow Students' Society.

The closing meeting of the session was held on the 3rd ult., when an address was given on "Insolvency and Notour Bankruptcy" by Mr. Ferguson N. West, Solicitor, Glasgow. Mr. E. Hall Wight, F.S.A.A., presided over a large attendance. At the close of an interesting and instructive lecture a discussion on various points in Scottish bankruptcy procedure took place, in which the Chairman, Mr. Tannett MacKenzie, Mr. Robert Fraser, Mr. James Paterson and others took part.

The Glasgow Students' Society held their annual business meeting on the 19th ult. Mr. J. Tannett MacKenzie, F.S.A.A., presided over a large attendance of young men. He was supported by Mr. A. R. Weir (Glasgow), Mr. Robert Young (Elgin) and Dr. John Bell (Glasgow), Vice-Presidents of the Scottish Branch; Mr. W. Davidson Hall (Glasgow), Mr. J. Stewart Seggie (Edinburgh), Mr. Wm. Hill Jack, Mr. J. Cradock Walker and Mr. Robert Fraser (Glasgow), Hon. Secretary of the Students' Society; Mr. James Paterson, Secretary of the Scottish Branch, and others. The Committee's report showed that the Students' Society had had a successful session and that the lectures had been well attended and much appreciated. The office bearers and Committee were re-elected. After tea a smoking concert followed.

The late Mr. John Meikle, Glasgow.

We regret to record the death of Mr. John Meikle, F.S.A.A., one of the earliest members of the Scottish Institute of Accountants, and a member of the Council of the Scottish Branch of the Society. Mr. Meikle carried on practice as an Incorporated Accountant in Glasgow many years, and was well known and highly esteemed. In his youth he had been a prominent athlete. One of the founders of the West of Scotland Harriers in 1886, he was its first secretary. He was a member of the Glasgow Queen's Park Amateur Football Club, one of the best known clubs in Scotland, and he also acted as secretary and treasurer of St. Mungo Golf Club. Mr. Meikle is survived by his widow, one son, who was associated with him in business, and two daughters.

Glasgow Chair of Accountancy.

To recognise the gift of £20,000 to the University of Glasgow by Mr. D. Johnstone Smith, C.A., to found a chair of Accountancy, the President and Council of the Institute of Accountants and Actuaries in Glasgow (incorporated by Royal Charter), invited a number of guests to join with their members in doing honour to Mr. Johnstone Smith at a meeting in the Accountants' Hall, Glasgow, on 22nd ult. Mr. Charles Ker, M.A., C.A., occupied the chair. A life-like portrait of Mr. Johnstone Smith has been painted by a well known Scottish artist, on the instructions of the Council of the Glasgow Institute, and this was presented to the Institute to be hung in their Hall. Mr. Johnstone Smith also received a presentation tankard as a memento of the occasion. Mr. James Paterson, F.S.A.A., Secretary of the Scottish Branch, was one of the guests, and represented the Incorporated Society at this interesting gathering.

Note on Legal Case.

REVENUE.

Gold Fields American Development Company, Limited, v. Consolidated Gold Fields of South Africa, Limited.

Relief from United Kingdom Income Tax.

A company which has income tax deducted from dividends paid to it reduced as the result of the operation of sect. 27 (5) of the Finance Act, 1920, is itself within the operation of that sub-section when seeking to deduct income tax from its own dividends, and must therefore pass on the benefit of the relief received in respect of the payment of Dominion income tax.

(Ch.; (1926) 42 T.L.R., 261.)